COPART INC
Form PRE 14A
October 31, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE

SECURITIES EXCHANGE ACT OF 1934

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

Check the appropriate box:

x	Preliminary Proxy Statement
¨	Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
¨	Definitive Proxy Statement
¨	Definitive Additional Materials
¨	Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-2

COPART, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

x	No fee required.
¨	Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
(1)	Title of each class of securities to which transaction applies:
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¨ Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

14185 Dallas Parkway, Suite 300
Dallas, Texas 75254
(972) 391-5000

November 15, 2013

Dear Stockholder:

You are cordially invited to attend the 2013 Annual Meeting of Stockholders of Copart, Inc. to be held on Monday, December 16, 2013, at 8:00 a.m., Central time, at Copart s corporate headquarters located at 14185 Dallas Parkway, Suite 300, Dallas, Texas 75254. The formal meeting notice and proxy statement are attached.

At this year s annual meeting, our stockholders will be asked:

To elect the eight nominees for director named in the proxy statement to hold office until our 2014 annual meeting of stockholders or until their respective successors have been duly elected and qualified;

To approve the amendment to and restatement of our 2007 Equity Incentive Plan, including amendments to increase the number of shares reserved under the plan from 8,000,000 shares to 12,000,000;

To approve the grant of an option to acquire 2,000,000 and 1,500,000 shares of our common stock to each of Mr. A. Jayson Adair, our chief executive officer, and Mr. Vincent W. Mitz, our president, respectively, as more fully described in this proxy statement, such grants to be made in lieu of any cash, salary or bonus compensation in excess of $1.00 per year or the grant of any additional equity incentives for a five-year period;

To vote to approve, on an advisory basis, the compensation of our named executive officers for the fiscal year ended July 31, 2013;

To ratify the appointment by the audit committee of our board of directors of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending July 31, 2014; and

To transact such other business as may properly come before the annual meeting or any adjournment or postponement of the annual meeting.

Your vote is important. Whether or not you plan to attend the annual meeting, it is important that your shares be represented, and we hope you will vote as soon as possible. Please vote promptly by mailing a completed proxy card in the enclosed return envelope (which is postage prepaid if mailed in the United States). Please remember to sign and date your card. If you hold shares of our common stock through a broker, bank, or other nominee holder, please follow the voting instructions provided. You may be able to vote by telephone or over the Internet. Returning the proxy card or voting electronically or telephonically does not deprive you of your right to attend the meeting and to vote your shares in person for the matters acted upon at the annual meeting.

Thank you for your ongoing support of Copart. We look forward to seeing you at our 2013 Annual Meeting.

Sincerely,

WILLIS J. JOHNSON
Chairman

This notice of our annual meeting of stockholders, proxy statement, proxy card, and 2013 annual report are being distributed and made available to our stockholders on or about November 15, 2013.

COPART, INC.
14185 Dallas Parkway, Suite 300
Dallas, Texas 75254
(972) 391-5000

NOTICE OF 2013 ANNUAL MEETING OF STOCKHOLDERS

Time and Date	8:00 a.m., Central time, on Monday, December 16, 2013
Place	Copart s corporate headquarters located at 14185 Dallas Parkway, Suite 300, Dallas, Texas 75254
Items of Business	To elect the eight nominees for director named in this proxy statement to hold office until our 2014 annual meeting of stockholders or until their respective successors are duly elected and qualified; To approve the amendment to and restatement of our 2007 Equity Incentive Plan, including amendments to increase the number of shares reserved under the plan from 8,000,000 shares to 12,000,000; To approve the grant of an option to acquire 2,000,000 and 1,500,000 shares of our common stock to each of Mr. A. Jayson Adair, our chief executive officer, and Mr. Vincent W. Mitz, our president, respectively, as more fully described in this proxy statement, such grants to be made in lieu of any cash, salary or bonus compensation in excess of $1.00 per year or the grant of any additional equity incentives for a five-year period; To vote to approve, on an advisory basis, the compensation of our named executive officers for the fiscal year ended July 31, 2013; To ratify the appointment by the audit committee of our board of directors of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending July 31, 2014; and To transact any other business that may properly come before the annual meeting.
Record Date	You are entitled to vote only if you were a Copart stockholder of record as of the close of business on the record date, October 28, 2013.
Meeting Admission	**You are entitled to attend the annual meeting only if you were a Copart stockholder as of the close of business on the record date or otherwise hold a valid proxy for the annual meeting**. If you are not a stockholder of record but hold shares through a broker, bank, trustee, or nominee (*i.e*., in street name), you should provide proof of beneficial ownership as of the record date, such as your most recent account statement reflecting ownership on the record date, a copy of the voting instruction card provided by your broker, bank, trustee, or nominee, or similar evidence of ownership. A complete list of stockholders entitled to vote at the meeting will be available and open to examination by any stockholder for any purpose germane to the meeting for a period of at least ten days prior to the meeting during normal business hours at our corporate headquarters.
Annual Report	Our 2013 annual report is enclosed with these materials as a separate booklet. You may also access our 2013 annual report by visiting http://materials.proxyvote.com/217204. Our 2013 annual report is not a part of the proxy solicitation materials.
Date of Mailing	This notice of our annual meeting of stockholders, proxy statement, proxy card, and 2013 annual report are being distributed and made available to our stockholders on or about November 15, 2013.
Voting	Your vote is very important. Whether or not you plan to attend the annual meeting, we encourage you to read the proxy statement and submit your proxy or voting instructions as soon as possible. For specific instructions on how to vote your shares, please refer to the instructions in the section entitled Questions and Answers About the Proxy Materials and Annual Meeting beginning on page 1 of the

proxy statement.

IMPORTANT NOTICE REGARDING THE PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON DECEMBER 16, 2013: The notice of annual meeting, proxy statement, proxy card and 2013 annual report are available by visiting http://materials.proxyvote.com/217204.

PROXY STATEMENT
FOR 2013 ANNUAL MEETING OF STOCKHOLDERS
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COPART, INC.
14185 Dallas Parkway, Suite 300
Dallas, Texas 75254
(972) 391-5000

PROXY STATEMENT
For the Annual Meeting of Stockholders
To Be Held December 16, 2013

QUESTIONS AND ANSWERS
ABOUT THE PROXY MATERIALS AND ANNUAL MEETING

What is a proxy?

A proxy is your legal designation of another person to vote the stock you own. The person you designate is your proxy, and you give the proxy authority to vote your shares by submitting the proxy card or voting by telephone or over the Internet. We have designated our chief executive officer, A. Jayson Adair, and our senior vice president, general counsel and secretary, Paul A. Styer, to serve as proxies for the annual meeting.

Why am I receiving these materials?

We are providing these proxy materials in connection with the solicitation by the Board of Directors of Copart, Inc., a Delaware corporation of proxies to be voted at our 2013 Annual Meeting of Stockholders (and at any adjournment or postponement of such meeting). The annual meeting will take place on Monday, December 16, 2013 at 8:00 a.m., Central time, at our corporate headquarters located at 14185 Dallas Parkway, Suite 300, Dallas, Texas 75254. Directions to the annual meeting are included on page 64 of this proxy statement. As a stockholder, you are invited to attend the annual meeting and are requested to vote on the items of business described in this proxy statement.

This proxy statement and the accompanying proxy card, notice of annual meeting, and voting instructions are being mailed starting November 15, 2013 to all stockholders of record entitled to vote at the annual meeting.

What information is contained in this proxy statement?

The information in this proxy statement relates to the proposals to be voted on at the annual meeting, the voting process, the compensation of our directors and most highly paid executive officers, our corporate governance policies, information on our board of directors, and certain other required information. We use several abbreviations in this proxy statement. The term proxy materials means this proxy statement as well as the proxy card and our 2013 annual report to stockholders. References to fiscal year refer to our fiscal year beginning on August 1 of the prior year and ending on July 31 of the year stated.

What items of business will be voted on at the annual meeting?

The items of business scheduled to be voted on at the annual meeting are as follows:

To elect the eight nominees for director named in this proxy statement to hold office until our 2014 annual meeting of stockholders or until their respective successors are duly elected and qualified;

To approve the amendment to and restatement of our 2007 Equity Incentive Plan, including amendments to increase the number of shares reserved under the plan from 8,000,000 shares to 12,000,000;

To approve the grant of an option to acquire 2,000,000 and 1,500,000 shares of our common stock to each of Mr. A. Jayson Adair, our chief executive officer, and Mr. Vincent W. Mitz, our president, respectively, as more fully described in this proxy statement, such grants to be made in lieu of any cash, salary or bonus compensation in excess of $1.00 per year or the grant of any additional equity incentives for a five-year period;

To vote to approve, on an advisory basis, the compensation of our named executive officers for the fiscal year ended July 31, 2013, as set forth in this proxy statement; and

To ratify the appointment by the audit committee of our board of directors of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending July 31, 2014.

We will also transact any other business that may properly come before the annual meeting.

How does our board of directors recommend that I vote?

Our board of directors recommends that you vote your shares:

FOR each of the eight nominees for director named in this proxy statement.

FOR the approval of the amendment to and restatement of our 2007 Equity Incentive Plan.

FOR the approval of the option grants to each of Mr. A. Jayson Adair, our chief executive officer, and Mr. Vincent W. Mitz, our president.

FOR the approval, on an advisory basis, of the compensation of our named executive officers for the fiscal year ended July 31, 2013.

FOR the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the 2014 fiscal year.

Who is entitled to vote at the Annual Meeting?

Each share of our common stock issued and outstanding as of the close of business on October 28, 2013, the record date for our annual meeting, is entitled to vote on all items being considered at the annual meeting. You may vote all shares owned by you as of the record date, including (i) shares held directly in your name as the stockholder of record and (ii) shares held for you as the beneficial owner in street name through a broker, bank, or other nominee. On the record date, we had 125,547,268 shares of common stock issued and outstanding.

How many votes am I entitled to per share?

For all matters described in this proxy statement for which your vote is being solicited, each holder of shares of common stock is entitled to one vote for each share of common stock held by such holder as of the record date.

Am I entitled to cumulate my votes at the annual meeting?

Under our certificate of incorporation in connection with the election of directors, each stockholder then entitled to vote in such election shall be entitled to as many votes as shall equal the number of votes which (except with respect to these cumulative voting rights) such holder would be entitled to cast for the election of directors with respect to such stockholder s shares of stock multiplied by the number of directors to be elected in the election in which such stockholder s shares are entitled to vote, and such stockholder may cast all of such votes for a single director or may distribute them among the number to be voted for, or for any two or more of them as such stockholder may see fit.

What is the difference between holding shares as a stockholder of record and as a beneficial owner?

Stockholder of Record

If your shares are registered directly in your name with our transfer agent, Computershare Trust Company, N.A., you are considered, with respect to those shares, the *stockholder of record*, and these proxy materials were sent directly to you by Copart. As the *stockholder of record*, you have the right to grant your voting proxy directly to our designated proxies or to vote in person at the annual meeting. We have enclosed or sent a proxy card for you to use with the printed proxy materials delivered to you. You may also vote on the Internet or by telephone,

as described below under the heading How can I vote my shares without attending the annual meeting? and on your proxy card.

Beneficial Owner

If your shares are held in an account at a brokerage firm, bank, or other similar organization, you are considered the beneficial owner of shares held in street name, and the notice of annual meeting, proxy statement, and 2013 annual report were forwarded to you by that organization. As the beneficial owner, you have the right to direct your broker, bank, or other nominee how to vote your shares, and you are also invited to attend the annual meeting.

As a *beneficial owner*, you have the right to direct your broker, trustee or other nominee on how to vote your shares. For directions on how to vote shares beneficially held in street name, please refer to the voting instruction card provided by your broker, trustee or nominee. Since a beneficial owner is not the *stockholder of record*, you may not vote your shares in person at the annual meeting unless you obtain a legal proxy from the broker, bank, trustee, or nominee that holds your shares giving you the right to vote the shares at the meeting. If you are a beneficial owner and do not wish to vote in person or you will not be attending the annual meeting, you may vote by following the instructions provided by your broker or other nominee.

How can I contact Copart s transfer agent?

You may contact our transfer agent, Computershare Trust Company, N.A., by telephone at (877) 282-1168, by facsimile at (781) 575-3605 or by writing Computershare Trust Company, N.A., P.O. Box 43078, Providence, Rhode Island, 02940-3078. You may also access instructions with respect to certain stockholder matters (*e.g.*, lost share certificates, change of address) via the Internet at www.computershare.com/investor.

How can I attend the annual meeting?

You are invited to attend the annual meeting if you were a stockholder of record as of the record date, October 28, 2013, you hold a valid proxy for the annual meeting, or you are a beneficial owner as of the record date, October 28, 2013. If you are a stockholder of record, meaning you hold shares directly in your name with Computershare Trust Company, N.A., please bring government-issued photo identification for entrance to the annual meeting. If you are not a stockholder of record but hold shares as a beneficial owner in street name, you should provide proof of beneficial ownership as of the record date, such as your most recent account statement reflecting stock ownership on the record date, October 28, 2013, together with a copy of the voting instruction card provided by your broker, bank, or nominee, or other similar evidence of ownership.

If you do not comply with the procedures outlined above, you may not be admitted to the annual meeting.

Please let us know if you plan to attend the meeting by marking the appropriate box on the proxy card or, if you vote by telephone or Internet, by indicating your plans when prompted.

Will the annual meeting be webcast?

We do not expect to webcast the annual meeting.

How can I vote my shares in person at the annual meeting?

Stockholders of record Shares held in your name as the stockholder of record may be voted by you in person at the annual meeting.

Beneficial owners Shares held beneficially in street name may be voted by you in person at the annual meeting only if you obtain a legal proxy from the broker, trustee, or other nominee that holds your shares giving you the right to vote the shares.

Even if you plan to attend the annual meeting, we recommend that you also submit your proxy or voting instructions as described below so that your vote will be counted if you later decide not to attend the annual meeting.

How can I vote my shares without attending the annual meeting?

By mail

Please complete, sign and date the proxy or voting instruction card and return it in the prepaid envelope. If you are a stockholder of record and you return your signed proxy card but do not indicate your voting preferences, the persons named in the proxy card will vote the shares represented by your proxy card as recommended by our board of directors.

By telephone

You may also vote by telephone. You can vote by calling the toll-free telephone number on your proxy card. Please have your proxy card handy when you call. Easy-to-follow voice prompts will allow you to vote your shares and confirm that your instructions have been properly recorded.

By Internet

If you are a stockholder of record, you may vote by following the telephone or Internet voting instructions on your proxy card.

Telephone and Internet voting facilities for stockholders of record will be available 24 hours a day until 1:00 a.m., Central time, on December 16, 2013.

If you are a beneficial owner of shares, your broker, bank or other holder of record may make telephone or Internet voting available to you. The availability of telephone and Internet voting for beneficial owners will depend on the voting processes of your broker, bank or other nominee holder of record. Therefore, we recommend that you follow the voting instructions in the materials you receive.

If you vote by telephone or the Internet, you do not have to return your proxy or voting instruction card.

Can I change my vote or revoke my proxy?

Yes, you have the right to revoke your proxy at any time prior to the time your shares are voted. If you are the stockholder of record, you may revoke your vote by (i) granting a new proxy bearing a later date (which automatically revokes the earlier proxy) using any of the methods described above under the subheading How can I vote my shares without attending the annual meeting? (and until the applicable deadline for each method), (ii) providing a written notice of revocation to our corporate secretary at Copart, Inc., 14185 Dallas Parkway, Suite 300, Dallas, Texas 75254, Attn: Paul A. Styer, prior to your shares being voted, or (iii) attending the annual meeting and voting in person. Attendance at the meeting will not cause your previously granted proxy to be revoked unless you specifically so request.

For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, trustee, or nominee following the instructions they provided or, if you have obtained a legal proxy from your broker, trustee, or nominee giving you the right to vote your shares, by attending the annual meeting and voting in person.

Is there a list of stockholders entitled to vote at the annual meeting?

The names of stockholders of record entitled to vote at the annual meeting will be available at the annual meeting and for ten days prior to the meeting for any purpose germane to the meeting, between the hours of 9:00 a.m. and 4:30 p.m., at our corporate headquarters located at 14185 Dallas Parkway, Suite 300, Dallas, Texas 75254, by contacting our corporate secretary.

Is my vote confidential?

Proxy instructions, ballots, and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within Copart or to third parties, except as necessary to meet applicable legal requirements, to allow for the tabulation of votes and certification of the vote, or to facilitate a successful proxy solicitation.

How many shares must be present or represented to conduct business at the annual meeting?

The quorum requirement for holding the annual meeting and transacting business is that the holders of a majority of the voting power of all of the shares of the stock entitled to vote at the meeting, present in person or by proxy, shall constitute a quorum. If there is no quorum, the chairman of the annual meeting may adjourn the meeting to another place, if any, date, or time. Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum.

What is a broker non-vote?

If you are a beneficial owner whose shares are held of record by a broker, trustee or nominee you must instruct the broker, trustee or nominee how to vote your shares. If you do not provide voting instructions, your shares will not be voted on any proposal on which the broker does not have discretionary authority to vote. This is called a broker non-vote. In these cases, the broker can register your shares as being present at the annual meeting for purposes of determining the presence of a quorum but will not be able to vote on those matters for which specific authorization is required. If you are a beneficial owner whose shares are held of record by a broker, trustee or nominee, your broker, trustee or nominee has discretionary voting authority to vote your shares on the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm (Proposal 5), even if the broker has not received voting instructions from you. However, your broker does not have discretionary authority to vote on the election of directors (Proposal 1), the approval of the amendment to and restatement of our 2007 Equity Incentive Plan (Proposal 2), the approval of the option grants to each of Mr. A. Jayson Adair and Mr. Vincent W. Mitz (Proposal 3) or the advisory vote on the approval of executive compensation (Proposal 4) without instructions from you, in which case a broker non-vote will occur and your shares will not be voted on these matters. Accordingly, if you are a beneficial owner, it is particularly important that you provide your instructions for voting your shares on the election of directors (Proposal 1), the approval of the amendment to and restatement of our 2007 Equity Incentive Plan (Proposal 2), the approval of the option grants to each of Mr. A. Jayson Adair and Mr. Vincent W. Mitz (Proposal 3) and the advisory vote on the approval of executive compensation (Proposal 4) to your broker, trustee, or other nominee.

What is the voting requirement to approve each of the proposals?

Proposal	Vote Required	Discretionary Voting Allowed?
Election of directors	Plurality of the votes cast	No
Amendment to and restatement of our 2007 Equity Incentive Plan	Majority of the votes cast	No
Option grants to each of Mr. A. Jayson Adair and Mr. Vincent W. Mitz	Majority of the votes cast	No
Advisory vote on executive compensation	Majority of the votes cast	No
Ratification of appointment of Ernst & Young LLP	Majority of the votes cast	Yes

Election of Directors

The nominees receiving the highest number of affirmative FOR votes of the shares entitled to be voted at the annual meeting will be elected as directors. You may vote FOR or WITHHOLD for each director nominee. A properly executed proxy marked WITHHOLD with respect to the election of a director will not be voted with respect to such director although it will be counted for purposes of determining whether there is a quorum. Abstentions and broker non-votes will not affect the outcome of the election of directors.

Amendment To and Restatement of Our 2007 Equity Incentive Plan

Under our Bylaws, the votes cast FOR must exceed the votes cast AGAINST to approve the amendment to and restatement of our 2007 Equity Incentive Plan. Abstentions and broker non-votes are not counted as votes FOR or AGAINST this proposal.

Option Grants to Each of Mr. A. Jayson Adair and Mr. Vincent W. Mitz

Under our Bylaws, the votes cast FOR must exceed the votes cast AGAINST to approve the option grants to each of Mr. A. Jayson Adair and Mr. Vincent W. Mitz. Abstentions and broker non-votes are not counted as votes FOR or AGAINST this proposal.

Advisory Vote on Approval of Executive Compensation

Under our Bylaws, the votes cast FOR must exceed the votes cast AGAINST to approve, on an advisory basis, the compensation of our named executive officers for the fiscal year ended July 31, 2013. Abstentions and broker non-votes are not counted as votes FOR or AGAINST this proposal.

Ratification of Appointment of Ernst & Young LLP

Under our Bylaws, the votes cast FOR must exceed the votes cast AGAINST to approve the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm. Abstentions are not counted as votes FOR or AGAINST this proposal.

What happens if additional matters are presented at the annual meeting?

Other than the items of business described in this proxy statement, we are not aware of any other business to be acted upon at the annual meeting. If you grant a proxy, the persons named as proxy holders, A. Jayson Adair and Paul A. Styer, or either of them, will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting. If for any reason any of the nominees is not available as a candidate for director, the persons named as proxy holders will vote your proxy for such other candidate or candidates as may be nominated by our board of directors.

Who will count the votes?

A representative of our transfer agent, Computershare Trust Company, N.A., will tabulate the votes and act as inspector of election.

Who will bear the cost of soliciting votes for the annual meeting?

We will pay the entire cost of preparing, assembling, printing, mailing, and distributing these proxy materials and soliciting votes. If you choose to access the proxy materials and/or vote over the Internet, you are responsible for Internet access charges you may incur. If you choose to vote by telephone, you are responsible for telephone charges you may incur. In addition, the solicitation of proxies or votes may be made in person, by telephone, or by electronic communication, by our directors, officers, and employees. None of those directors, officers or employees will receive any additional compensation for such solicitation activities. We may also reimburse brokerage firms, banks, and other nominee holders of record for the cost of forwarding proxy materials to beneficial owners.

Where can I find the voting results of the annual meeting?

We will announce preliminary voting results at the annual meeting. We will also disclose voting results on a Current Report on Form 8-K to be filed with the SEC within four business days after the annual meeting. If final voting results are not available to us in time to file a Current Report on Form 8-K, we will file a Current Report on Form 8-K to publish preliminary results and, within four business days after final results are known, file an additional Current Report on Form 8-K to publish the final results.

What is householding and how does it affect me?

We have adopted a procedure called householding, which has been approved by the SEC. Under this procedure, we deliver only one copy of the annual report and proxy statement to multiple stockholders who share the same address and have the same last name, unless we have received contrary instructions from an affected stockholder. This procedure reduces our printing costs, mailing costs, and fees. Stockholders who participate in householding will continue to receive separate proxy cards.

We will deliver, promptly upon written or oral request, a separate copy of the 2013 annual report and the proxy statement to any stockholder at a shared address to which a single copy of either of those documents was delivered. To receive a separate copy of the 2013 annual report and/or proxy statement, you may write to or call Copart s Investor Relations Department at 14185 Dallas Parkway, Suite 300, Dallas, Texas 75254, telephone (972) 391-5000. Any such request should be made promptly in order to ensure timely delivery. Any stockholders of record who (i) share the same address and currently receive multiple copies of our annual report and proxy statement and (ii) wish to receive only one copy of these materials per household in the future may contact our Investor Relations Department at the address or telephone number listed above to participate in the householding program.

A number of brokerage firms have instituted householding. If you hold your shares beneficially in street name, please contact your bank, broker, or other holder of record to request information about householding.

What is the deadline to propose actions for consideration at next year s annual meeting of stockholders or to nominate individuals to serve as directors?

Requirements for Stockholder Proposals to be Considered for Inclusion in Our Proxy Materials

Stockholders may present proper proposals for inclusion in our proxy statement and for consideration at the next annual meeting of stockholders by submitting their proposals in writing to our corporate secretary in a timely manner. For a stockholder proposal to be considered for inclusion in our proxy statement for our 2014 annual meeting of stockholders, our corporate secretary must receive the written proposal at our principal executive offices not later than July 18, 2014; provided, however, that in the event that we hold our 2014 annual meeting of stockholders more than 30 days from the one-year anniversary date of the 2014 annual meeting, we will disclose the new deadline by which stockholders proposals must be received under Item 5 of our earliest possible Quarterly Report on Form 10-Q or, if impracticable, by any means reasonably calculated to inform stockholders. All stockholder proposals must otherwise comply with the requirements of Rule 14a-8 of the Securities Exchange Act of 1934, as amended, regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Proposals should be addressed to:

Copart, Inc.
Attn: Corporate Secretary
14185 Dallas Parkway, Suite 300
Dallas, Texas 75254

The submission of a stockholder proposal does not guarantee that it will be included in Copart s proxy statement or proxy.

Requirements for Stockholder Proposals to be Brought Before the 2014 Annual Meeting

Our bylaws also establish an advance notice procedure for stockholders who wish to present a proposal before an annual meeting of stockholders, but do not intend for the proposal to be included in our proxy statement. Our bylaws provide that the only business that may be conducted at an annual meeting is business that is (i) specified in our proxy materials with respect to such meeting, (ii) otherwise properly brought before the meeting by or at the direction of our board of directors, or (iii) properly brought before the meeting by a stockholder of record entitled to vote at the annual meeting who has delivered timely written notice to our corporate secretary, which notice must contain the information specified in our bylaws. To be timely for our 2014 annual meeting of stockholders, our corporate secretary must receive the written notice at our principal executive offices:

Not earlier than September 1, 2014, and

Not later than the close of business on October 1, 2014.

In the event that we hold our 2014 annual meeting of stockholders more than 30 days before or after the one-year anniversary date of the 2013 annual meeting, then notice of a stockholder proposal that is not intended to be included in our proxy statement must be received not later than the close of business on the later of the following two dates:

The 90th day before such annual meeting: or

The 10th day following the day on which public announcement of the date of such meeting is first made.

If a stockholder who has notified us of his or her intention to present a proposal at an annual meeting does not appear to present his or her proposal at such meeting, we are not required to present the proposal for a vote at such meeting.

Nomination of Director Candidates

Our bylaws permit stockholders to nominate directors for election at an annual meeting of stockholders. To nominate a director, the stockholder must provide the information required by our bylaws. In addition, the stockholder must give timely notice to our corporate secretary in accordance with our bylaws, which, in general, require that the notice be received by our corporate secretary within the time period described above under Requirements for Stockholder Proposals to be Brought Before the 2014 Annual Meeting for stockholder proposals that are not intended to be included in our proxy statement.

In addition, it is the policy of our nominating and governance committee to consider recommendations for candidates to the board of directors from stockholders holding not less than one percent (1%) of the outstanding shares of our common stock continuously for at least twelve (12)

months prior to the date of submission of the recommendation or nomination. Any such recommendations should include the nominee s name and qualifications for membership on our board of directors, and should be directed to our general counsel at our address set forth above for our corporate secretary. For additional information regarding stockholder recommendations for director candidates, please see the sections entitled Corporate Governance and Board of Directors Director Nomination Process and Corporate Governance and Board of Directors Considerations in Identifying and Evaluation Director Nominees.

Availability of Bylaws

A copy of our current bylaws may be obtained free of charge by written request to our Investor Relations Department c/o Copart, Inc., 14185 Dallas Parkway, Suite 300, Dallas, Texas 75254.

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CORPORATE GOVERNANCE AND BOARD OF DIRECTORS

Board of Directors Composition, Meetings, and Board Committees

Our board of directors is currently comprised of eight members. Our bylaws permit our board to establish the authorized number of directors within a range from five to nine members, and eight directors are currently authorized.

All directors elected at an annual meeting are elected to serve from the time of election and qualification until the earlier of the next annual meeting of stockholders following such election or their resignation or removal. At each annual meeting of stockholders, the terms of each of our incumbent directors expire and all members of our board of directors are elected.

Fiscal 2013 Board Meetings

During fiscal 2013, our board of directors held eight meetings. Each of our directors attended or participated in 75% or more of the total number of meetings of our board of directors, and 75% or more of the meetings held by all committees of our board of directors on which he served during the past fiscal year.

Board Leadership Structure

Our board of directors believes that it is important to retain its flexibility to allocate the responsibilities of the positions of the chairman of our board and chief executive officer in a way that it believes is in our best interests. Currently, the roles of chairman of our board and chief executive officer have been separated by our board of directors. Willis J. Johnson is our executive chairman, and A. Jayson Adair is our chief executive officer. Our board believes that the separation of the offices of chairman and chief executive officer is appropriate at this time because it allows our chief executive officer to focus primarily on our business strategy, operations, and corporate vision while the chairman provides guidance to the chief executive officer, sets the agenda for board meetings, and presides over meetings of the full board. Our board s administration of risk oversight has not affected its leadership structure.

Director Independence

Of our incumbent directors, Messrs. Blunt, Cohan, Englander, Meeks, and Tryforos have each been determined by our board to be an independent director as that term is defined under the rules of The NASDAQ Stock Market LLC, or the NASDAQ.

Our board of directors has not established categorical standards or guidelines to make director independence determinations but considers all relevant facts and circumstances. Our board based its determinations primarily on a review of the responses of the directors to questions regarding employment and compensation history, affiliations, family and other relationships, and on discussions with our directors. In making its independence determinations, our board considered transactions between us and entities associated with the directors or members of their immediate family. All identified transactions that appear to relate to us and a person or entity with a known connection to a director are presented to our board of directors for consideration. In making its determination that certain directors are independent, our board of directors considered the transactions in the context of the NASDAQ rules, the standards established by the SEC for members of audit committees, and the SEC and Internal Revenue Service standards for compensation committee members.

Oversight of Risk Management

Our board of directors role in our risk oversight process includes receiving regular reports from members of senior management on areas of material risk to us, including operational, financial, legal and regulatory, and strategic and reputational risks.

Our board s role in risk oversight is consistent with our board s leadership structure, with the chief executive officer and other members of senior management having responsibility for assessing and managing our risk exposure and our board and committees providing oversight in connection with those efforts. While our board has the ultimate oversight responsibility for our risk management policies and processes, the committees of our board also have responsibility for risk oversight with respect to certain matters.

Our audit committee oversees management of financial risk exposures, including the integrity of our accounting and financial reporting processes and controls. As part of this responsibility, our audit committee meets periodically with our independent auditors, our internal auditors, and our financial and accounting personnel to discuss significant financial risk exposures and the steps management has taken to monitor, control, and report these exposures. Additionally, our audit committee reviews significant findings prepared by our independent auditors together with management s responses as well as significant findings of our internal auditors. Our audit committee also oversees risk associated with related party transactions and business conduct compliance.

Our compensation committee considers the risks associated with our compensation policies and practices with respect to both executive compensation and employee compensation generally. Our management has reviewed with our compensation committee the compensation plans and programs that could have a material impact on us. The management review considered whether any of these plans or programs may encourage inappropriate risk-taking, whether any plan may give rise to risks that are reasonably likely to have a material adverse effect on us, and whether our management would recommend any changes to the plans. Our management also reviewed with our compensation committee risk-mitigating controls such as the degree of compensation committee and senior management oversight of each program and the level and design of internal controls over such programs.

Our nominating and governance committee oversees risks associated with our overall governance practices and the leadership structure of our board. Our board is kept informed of each committee s risk oversight and other activities via regular reports of the committee chairs to the full board.

Board Committees

Our board of directors maintains three standing committees: an audit committee, a compensation committee, and a nominating and governance committee. Each committee has a written charter, approved by our board of directors, outlining the principal responsibilities of the committee. Copies of the current committee charters are available in the Corporate Governance section of the Investor Relations page on our website at *www.copart.com.*

Our board committees are comprised as follows:

Director Name	Audit Committee	Compensation Committee	Nominating and Governance Committee
Matt Blunt	√		√
Steven D. Cohan	Chair	√	
Daniel J. Englander	√	Chair	Chair
James E. Meeks			√
Thomas N. Tryforos		√	

Only directors deemed to be independent (see below) serve on the audit, compensation, or nominating and governance committees. However, our board may create special committees from time to time and our current employee directors or those deemed not to be independent under applicable rules and guidelines may be appointed to serve on those special committees, as our board may determine.

Audit Committee. Our audit committee is primarily responsible for (i) reviewing and approving the services performed by our independent registered public accounting firm, (ii) reviewing our consolidated financial statements, and (iii) reviewing reports concerning our accounting practices and systems of internal accounting procedures and controls. The purposes of our audit committee are, among other things, to:

Oversee our accounting and financial reporting processes and audits of our consolidated financial statements;

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Assist our board in overseeing and monitoring: (i) the integrity of our consolidated financial statements; (ii) our internal accounting and financial controls; (iii) our compliance with legal and regulatory requirements; and (iv) our independent auditor s qualifications, independence, and performance;

Prepare the audit committee report that the rules of the SEC require be included in our annual proxy statement;

Provide our board with the result of its monitoring and any recommendations derived from such monitoring;

Provide our board with additional information and materials as our audit committee may determine to be necessary to make our board aware of significant financial matters requiring board attention; and

Function as our qualified legal compliance committee for the purposes of reviewing and discussing any reports concerning material violations submitted to it by our attorneys or our outside counsel.

Our audit committee held four meetings during fiscal 2013. Our audit committee acts under a written charter adopted and approved by our board of directors, which charter can be found at http://www.copart.com/c2/pdf/audit_cc.pdf.

The audit committee currently consists of Steven D. Cohan, Daniel J. Englander and Matt Blunt. Mr. Cohan is the chair of our audit committee. Our board of directors has determined that each of the members of our audit committee are independent directors as contemplated by the NASDAQ listing rules and the rules of the SEC relating to audit committee independence. Our board of directors has designated Mr. Cohan, the chairman of the committee, as an audit committee financial expert as defined in Item 401(h) of Regulation S-K promulgated by the SEC. This designation is a disclosure requirement of the SEC and does not impose upon Mr. Cohan any duties, obligations, or liabilities greater than that which would otherwise be imposed by virtue of his membership on our board or audit committee. In addition, this designation does not affect the duties, obligations, or liabilities of any other director or audit committee member. Our board of directors has determined that each audit committee member has sufficient knowledge in reading and understanding financial statements to serve on our audit committee.

Compensation Committee. Our compensation committee is generally responsible for, among other things, (i) assisting our board of directors in providing oversight of our compensation policies, plans and benefits programs and (ii) reviewing and approving, and, where appropriate, making recommendations to our board of directors regarding all forms of compensation to be provided to all of our employees, directors and consultants, including stock compensation and loans, and all bonus and stock compensation to all employees.

Our compensation committee held five meetings during fiscal 2013. Our compensation committee acts under a written charter adopted and approved by our board of directors, which charter can be found at http://www.copart.com/c2/pdf/compensation_cc.pdf.

The compensation committee currently consists of Daniel J. Englander, Thomas N. Tryforos and Steven D. Cohan. Mr. Englander is the chair of our compensation committee. Our board of directors has determined that each of the members of our compensation committee are (i) independent directors as contemplated by NASDAQ rules, (ii) outside directors as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended (Code), and (iii) non-employee directors for purposes of Rule 16b-3 under the Exchange Act.

Nominating and Governance Committee. Our board of directors established the nominating and governance committee to ensure that our board is properly constituted to meet its fiduciary obligations to stockholders and that we have and follow appropriate governance standards. The committee is authorized to assist our board by identifying prospective director nominees, to select the director nominees for the next annual meeting of stockholders and to develop and recommend to our board governance principles applicable to us.

Our nominating and governance committee held one meeting during fiscal 2013. Our nominating and governance committee acts under a written charter adopted and approved by our board of directors, which charter can be found at

http://www.copart.com/c2/pdf/nominating_governance_cc.pdf.

The nominating and governance committee consists of Daniel J. Englander, Matt Blunt and James E. Meeks. Mr. Englander is the chair of our nominating and governance committee. Our board of directors has determined

that each of the members of our nominating and governance committee were and are (i) independent directors as contemplated by NASDAQ rules, (ii) outside directors as defined in Section 162(m) of the Code, and (iii) non-employee directors for purposes of Rule 16b-3 under the Exchange Act.

Compensation Committee Interlocks and Insider Participation

The compensation committee of our board of directors consisted of Messrs. Cohan and Englander from August 1, 2012 until June 4, 2013 and Messrs. Cohan, Englander and Tryforos from June 4, 2013 through the end of fiscal 2013. No member of our compensation committee was, at any time during fiscal 2013, an officer or employee of Copart or any of our subsidiaries. In addition, no member of our compensation committee had any relationship requiring disclosure under Item 404 of Regulation S-K promulgated by the SEC at the time such committee member served as a board member and committee member.

No interlocking relationship, as described by the SEC, currently exists or existed during fiscal 2013 between any member of our compensation committee and any member of any other company s board of directors or compensation committee.

Considerations in Identifying and Evaluating Director Nominees

Our nominating and governance committee has established policies and procedures relating to the consideration of any individual recommended as a prospective director nominee from stockholders. Please see the section entitled *Director Nomination Process* below. The nominating and governance committee will consider candidates recommended by stockholders in the same manner as candidates recommended to the committee from other sources.

In its evaluation of director candidates, including the members of the board of directors eligible for reelection, our committee will consider the following:

The current size and composition of our board of directors and the needs of the board and its respective committees;

Factors such as character, integrity, judgment, diversity of experience, independence, area of expertise, corporate experience, length of service, potential conflicts of interest, other commitments and the like. Our committee evaluates these factors, among others, and does not assign any particular weighting or priority to any of these factors; and

Other factors that our committee may consider appropriate.

Any nominee for a position on the board must satisfy the following minimum qualifications:

The highest personal and professional ethics and integrity;

Proven achievement and competence in the nominee s field and the ability to exercise sound business judgment;

Skills that are complementary to those of the existing board;

The ability to assist and support management and make significant contributions to the company s success; and

An understanding of the fiduciary responsibilities required of a member of the board and the commitment of time and energy necessary to diligently carry out those responsibilities.

The nominating and governance committee considers diversity as one of many, but not dispositive, factors in identifying nominees for director, including personal characteristics such as race and gender, as well as diversity in the experience and skills that contribute to the board s performance of its responsibilities in the oversight of a complex and highly-competitive global business. The nominating and governance committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees.

If our committee determines that an additional or replacement director is required, the committee may take such measures as it considers appropriate in connection with its evaluation of a director candidate, including candidate interviews, inquiry of the person or persons making the recommendation or nomination, engagement of an outside search firm to gather additional information, or reliance on the knowledge of the members of the committee, board or management.

Director Nomination Process

Our nominating and governance committee is responsible for, among other things, determining the criteria for membership to our board of directors and recommending candidates for election to the board of directors. It is the policy of our nominating and governance committee to consider recommendations for candidates to the board of directors from stockholders holding not less than one percent (1%) of the outstanding shares of our common stock continuously for at least twelve (12) months prior to the date of submission of the recommendation or nomination. Stockholder recommendations for candidates to the board of directors must be directed in writing to Copart, Inc., 14185 Dallas Parkway, Suite 300, Dallas, Texas 75254, Attention: General Counsel, and must include the candidate s name, home and business contact information, detailed biographical data, relevant qualifications, a signed letter from the candidate confirming willingness to serve, information regarding any relationships between the candidate and Copart, and evidence of the recommending stockholder s ownership of our stock. Such recommendations must also include a statement from the recommending stockholder in support of the candidate, particularly within the context of the criteria for board membership, including issues of character, integrity, judgment, diversity of experience, independence, area of expertise, corporate experience, length of service, potential conflicts of interest, other commitments and the like, and personal references. For details regarding the process to nominate a director directly for election to the board at an annual meeting of the stockholders, please see the section entitled Questions and Answers About the Proxy Materials and Annual Meeting *What is the deadline to propose actions for consideration at next year s annual meeting of stockholders or to nominate individuals to serve as directors? Nomination of Director Candidates.*

Director Attendance at Annual Meetings

Although we do not have a formal policy regarding attendance at stockholder meetings, our directors are encouraged to attend the annual meeting of stockholders. Three of our directors attended our 2012 annual meeting of stockholders.

Stockholder Communications with our Board of Directors

Our board of directors recommends that stockholders who wish to communicate directly with our board should do so in writing. Our board of directors has approved the following procedure for stockholders to communicate with our directors. Mail can be addressed to directors in care of Copart, Inc., Attention: General Counsel, 14185 Dallas Parkway, Suite 300, Dallas, Texas 75254. All mail received will be logged in, opened and screened for security purposes. All mail, other than trivial or obscene items, will be forwarded. Items will be delivered to our directors at the next scheduled board meeting. Mail addressed to a particular director will be forwarded or delivered to that director. Mail addressed to Outside Directors or Non-Management Directors will be forwarded or delivered to the chairman of our nominating and governance committee. Mail addressed to the Board of Directors will be forwarded or delivered to the chairman of our board and chief executive officer. Our General Counsel may decide in the exercise of his judgment whether a response to any stockholder communication is necessary.

This procedure does not apply to stockholder proposals submitted pursuant to our bylaws and Rule 14a-8 of the Exchange Act, as discussed in this proxy statement under the caption *What is the deadline to propose actions for consideration at next year s annual meeting of stockholders or to nominate individuals to serve as directors?*

COMPENSATION OF NON-EMPLOYEE DIRECTORS

Our directors play a critical role in guiding our strategic direction and overseeing our management. In connection therewith, our non-employee directors are eligible to receive cash and equity compensation. Each non-employee director receives an annual director s fee of $70,000, payable in quarterly installments. Mr. Cohan, who serves as chairman of our audit committee, receives an additional annual fee of $10,000 for his services as chairman of our audit committee, payable in quarterly installments. In addition to cash compensation, pursuant to procedures previously adopted by our board of directors, each non-employee director (other than newly appointed non-employee directors) receives an annual option grant of 40,000 shares under our 2007 Equity Incentive Plan, which grant takes place on the date of our annual meeting of stockholders each year. Newly appointed non-employee directors are awarded an initial grant of shares at the time of appointment and are not eligible for an additional grant until the fiscal year following their appointment. The directors are also eligible for reimbursement of reasonable and necessary expenses incurred in connection with their attendance at board and committee meetings.

Mr. Johnson is an executive officer, though not considered one of our named executive officers. As an employee director he does not receive any cash, equity or other compensation for his service as a member of our board of directors. In that respect, we have not listed him in either table in this section of our proxy statement.

The following table presents information relating to total compensation paid or accrued for services rendered to us in all capacities by our non-employee directors for the fiscal year ended July 31, 2013.

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)(1)	Total ($)
Matt Blunt	70,000	301,420	371,420
Steven D. Cohan	80,000	301,420	381,420
Daniel J. Englander	70,000	301,420	371,420
James E. Meeks	70,000	301,420	371,420
Thomas N. Tryforos	70,000		70,000

(1) Amounts shown represent the aggregate grant date fair values of awards of stock options granted in fiscal 2013, which were computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Stock Compensation, as amended, without regard to estimated forfeitures, or, with respect to re-priced options, the incremental fair value as computed in accordance with FASB ASC Topic 718. There can be no assurances that the amounts disclosed will ever be realized. Assumptions used in the calculation of these amounts are included in Note 1, Summary of Significant Accounting Policies Stock Compensation to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2013.

As of July 31, 2013, the end of our 2013 fiscal year, the aggregate number of stock options outstanding for each non-employee director was as follows:

Name	Aggregate Number of Shares Underlying Options
Matt Blunt	50,000
Steven D. Cohan	240,000
Daniel J. Englander	240,000
James E. Meeks	337,500
Thomas N. Tryforos	40,000

Under procedures previously adopted by our board of directors, each member of our board of directors (other than newly appointed non-employee directors) receives an option grant of 40,000 shares of our common stock on the date of our annual stockholder meeting. On

December 5, 2012, the date of our 2012 annual stockholder meeting,

each of Messrs. Blunt, Cohan, Englander and Meeks were granted options to purchase 40,000 shares of our common stock under our 2007 Equity Incentive Plan as part of their annual board compensation for fiscal 2013, at an exercise price of $30.02 per share, which was the closing price of our common stock on the NASDAQ on the date of grant. Fifty percent (50%) of the shares subject to each option vest 12 months from the date of grant and 1/24th of the total number of shares underlying each option vest each month thereafter, such that the options will be fully vested two years from the date of grant. Vesting of the options may accelerate if any successor corporation does not assume the options in the event of a change in control.

PROPOSAL NUMBER ONE

ELECTION OF DIRECTORS

General

One of the purposes of our annual meeting is to elect directors to hold office until the 2014 annual meeting of stockholders or until their respective successors are elected and have been qualified. At each annual meeting of stockholders, the terms of each of our incumbent directors expires and all members of our board of directors are elected. Our bylaws permit our board to establish the authorized number of directors within a range from five to nine members. Eight directors are currently authorized.

Nominees

Our nominating and governance committee has nominated the eight individuals listed below for election as directors. All of the nominees for election at the annual meeting are currently our directors. All of the nominees were approved by our nominating and governance committee. Each person nominated for election has agreed to serve if elected, and we have no reason to believe that any nominee will be unavailable to serve. Unless otherwise instructed, the proxy holders will vote all submitted proxies FOR the eight nominees named below. In the event that additional persons are nominated for election as directors, the proxy holders intend to vote all proxies received by them in such a manner (in accordance with cumulative voting) as will ensure the election of as many of the nominees listed below as possible. In such event, the specific nominees to be voted for will be determined by the proxy holders. Directors must be elected by a plurality of the votes cast at the annual meeting. Accordingly, the eight candidates receiving the highest number of affirmative votes of the shares entitled to vote at the annual meeting will be elected to our board of directors.

Each of the following nominees is currently one of our directors. Please see Biographical Information below for information concerning each of the following directors standing for election. Please note that all ages set forth below are as of October 28, 2013.

Name	Age	Position	Director Since
Willis J. Johnson	66	Chairman of the Board	1982
A. Jayson Adair	44	Chief Executive Officer and Director	1992
Matt Blunt	42	Director	2009
Steven D. Cohan	52	Director	2004
Daniel J. Englander	44	Director	2006
James E. Meeks	64	Director	1996
Vincent W. Mitz	50	President	2011

Name	Age	Position	Director Since
Thomas N. Tryforos	54	Director	2012

Biographical Information

Willis J. Johnson, founder of Copart, has, since January 2004, served as chairman of our board of directors. From 1982 until February 2010, Mr. Johnson served as our chief executive officer and from 1986 until 1995, he also served as our president. Mr. Johnson was an officer and director of U-Pull-It, Inc. (UPI), a self-service auto dismantler, which he co-founded, from 1982 through September 1994. Mr. Johnson sold his entire interest in UPI in September 1994.

Mr. Johnson has over 30 years of experience in owning and operating auto dismantling companies and has overseen our growth from a single salvage facility in California to 206 facilities in seven countries. As such, he brings to our board significant institutional history as well as extensive knowledge of the industry and our operations.

A. Jayson Adair has served as our chief executive officer since February 2010. From November 1996 to February 2010, Mr. Adair served as our president. From 1995 until 1996, Mr. Adair served as our executive vice president. From 1990 until 1995, Mr. Adair served as our vice president of sales and operations, and from 1989 to 1990, Mr. Adair served as our manager of operations.

Mr. Adair s considerable knowledge and understanding of our company and our businesses together with his extensive experience managing crucial aspects of our business provide our board with significant insight into our businesses and operations.

Matt Blunt served as the Governor of the State of Missouri from 2005 to 2009. Prior to serving as the Governor of Missouri, Mr. Blunt served as a member of the Missouri General Assembly from 1999 through 2001 and as Missouri s Secretary of State from 2001 through his inauguration as Governor in 2005. Since leaving the Office of the Governor of the State of Missouri, Mr. Blunt has served as a senior advisor to government affairs and financial firms. Since February 2011, Mr. Blunt has served as the president of the American Automobile Policy Council, which represents the public policy interests of Chrysler Group, LLC, Ford Motor Company, and General Motors Company. He is a 1993 graduate of the United States Naval Academy and received four Navy and Marine Corps Achievement Medals during his military service as well as numerous other awards.

Mr. Blunt brings to our board extensive experience in government and public policy as a result of his service as the Governor of Missouri, a member of the Missouri General Assembly, and his military training. As such, he provides our board with a unique and broad perspective on the issues we face.

Steven D. Cohan has served as the chief executive officer and president and as a director of Loco Ventures, Inc., a privately held company in Northern California, since 1997. From 1992 to 1994, he served as our vice president of finance and principal accounting officer and, from 1994 to 1996, he served as our vice president of corporate development. He holds an M.B.A. from the University of San Francisco and a B.A. in Economics from the University of California, Los Angeles. He is a certified public accountant.

Mr. Cohan brings to our board of directors a deep understanding of accounting principles and financial reporting rules and regulations. He acquired this knowledge in the course of serving as our principal accounting officer and his training as a certified public accountant.

Daniel J. Englander is managing partner of Ursula Capital Partners, an investment management firm that he founded in May 2004. In addition, since 2007, Mr. Englander has served as a director of America s Car-Mart, Inc., an automotive retailer based in Bentonville, Arkansas; and he served as a director of Ambassadors International, a cruise ship operator based in Seattle, Washington from 2009 through May 2011. From October 1994 until January 2004, Mr. Englander was employed as an investment banker with Allen & Company, a New York-based merchant bank, serving as a Managing Director from September 2002 until his departure. He holds a B.A. from Yale University.

Mr. Englander s background in investment management and finance enables him to be a valuable resource to our board and to our company with respect to financial and business issues.

James E. Meeks served as our chief operating officer from 1992, when he joined us in connection with our purchase of South Bay Salvage Pool, until his retirement in 2007. From 1995 to 1996, Mr. Meeks also served as our senior vice president and from 1996 until 2007 he served as our executive vice president. From 1986 to 1992, Mr. Meeks, together with his family, owned and operated the South Bay Salvage Pool, a salvage yard company. From 1991 to 2001, Mr. Meeks was an officer, director and part owner of CAS & Meeks, Inc., a towing and subhauling service company. On August 1, 2007, Mr. Meeks relinquished the titles and responsibilities of executive vice president and chief operating officer, and he retired from employment with us on December 31, 2007.

With over 30 years of experience in vehicle dismantling business and extensive experience in the subhauling business as well as his knowledge of our businesses and operations, Mr. Meeks brings to our board deep understanding of many aspects of the salvage market.

Vincent W. Mitz has served as our president since February 2010. From August 2007 to February 2010, Mr. Mitz served as our executive vice president. From May 1995 until July 2007, Mr. Mitz served as our senior

vice president of marketing. Previously, Mr. Mitz was employed by NER Auction Systems Inc. (NER), an automotive auction company, from 1981 until its acquisition by us in 1995. At NER, Mr. Mitz held numerous positions, most recently as vice president of sales and operations for NER s New York region from 1990 to 1993 and vice president of sales & marketing from 1993 to 1995.

With over 30 years of experience in the automotive auction industry, including 17 years with Copart, Mr. Mitz s understanding of our business, operations, and strategy enables him to provide significant insight into our business and operations.

Thomas N. Tryforos has been a private investor since 2005. Between May 1991 and September 2004, Mr. Tryforos was a general partner at Prescott Investors, Inc., a private investment firm. Mr. Tryforos also serves as a director of Credit Acceptance Corporation, a publicly-traded indirect auto finance company. Mr. Tryforos received a B.A. from Columbia College in 1981. He received an MBA in accounting and finance from Columbia Business School in 1984.

Mr. Tryforos significant experience in investing and financial matters enables him to provide insight and be a valuable resource to our board of directors and our company with respect to investment and financial matters.

There are no family relationships among any of our directors or executive officers, except that A. Jayson Adair is the son-in-law of Willis J. Johnson.

Required Vote

The eight director nominees receiving the highest number of affirmative votes of the shares entitled to be voted at the annual meeting, either in person or by proxy, will be elected as directors at the annual meeting.

Recommendation of our Board of Directors

Our board of directors unanimously recommends that stockholders vote FOR the election of the eight nominees listed above.

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PROPOSAL NUMBER TWO

APPROVAL OF AMENDMENT AND RESTATEMENT OF 2007 EQUITY INCENTIVE PLAN

General

We are asking our stockholders to approve an amendment to and restatement of our 2007 Equity Incentive Plan (the 2007 Plan) to make the following amendments, which were previously approved by the Board of Directors on October 25, 2013, subject to stockholder approval at our Annual Meeting:

Increase in the number of shares of our common stock reserved for issuance under the 2007 Plan by 4,000,000 shares. This amount is expected to cover our needs for approximately the next four years based on historical grant practices; however, future circumstances and business needs may dictate a different result. (Section 3(a) of the 2007 Plan).

Add reasonable and meaningful limits as to the maximum number of awards that could be granted in each fiscal year of the Company to its non-employee directors (Section 23).

We are also seeking to re-approve the material terms of the 2007 Plan to allow us the ability to grant awards that qualify as performance-based compensation under Section 162(m) of the Code (Section 162(m)). At our 2007 annual meeting of stockholders, our stockholders approved a similar menu of performance-based compensation measures. Section 162(m) generally denies a corporate tax deduction for annual compensation exceeding $1 million paid to the chief executive officer and other covered employees, as determined under Section 162(m) and applicable guidance. However, certain types of compensation, including performance-based compensation, are generally excluded from this deductibility limit. To enable us the ability to grant awards under the 2007 Plan that qualify as performance-based within the meaning of Section 162(m), the 2007 Plan limits the sizes of such awards as further described below. By approving the 2007 Plan, the stockholders will be re-approving, among other things, eligibility requirements for participation in the Plan, performance measures upon which specific performance goals applicable to certain awards would be based, limits on the numbers of shares or compensation that could be made to participants, and the other material terms of the 2007 Plan and awards to be granted under the 2007 Plan. If our stockholders approve the amended and restated 2007 Plan, the 2007 Plan administrator may (but is not required to) approve awards under the 2007 Plan that qualify as performance-based compensation under Section 162(m). If our stockholders do not approve the amended and restated 2007 Plan, our chief executive officer and three most highly compensated officers (other than the chief financial officer) would not be eligible to receive awards under the 2007 Plan.

Reasons for Voting for the Amendment and Restatement of the 2007 Equity Incentive Plan

As reflected in the Compensation Philosophy and Program Design below, equity-based incentive awards are a key component of our compensation philosophy by allowing us the ability to foster a corporate culture that aligns employee interests with stockholder interests. We believe that the use of equity-based incentive awards has been a material factor in our success to date, and if our stockholders approve the amendment to and restatement of the 2007 Plan, we intend to continue the appropriate use of equity awards in the future.

As of October 28, 2013, only 1,642,242 shares were available for issuance under the 2007 Plan, which we have determined would be insufficient to meet our forecasted needs for the next four years as discussed in greater detail below. We believe that an additional 4,000,000 shares is necessary for us to continue to offer a competitive equity-based incentive program for the next four years based on historical grant practices and forecasted needs. If the stockholders do not approve the proposed share increase, we may not be able to continue to offer competitive equity packages to retain our current employees and hire new employees in future years. This could significantly affect our plans for growth and adversely affect our ability to operate our business.

The Board of Directors believes strongly that the approval of the amendment to and restatement of the 2007 Plan is essential to our continued success. In particular, we believe that our employees are our most valuable assets and that the awards permitted under the 2007 Plan are vital to our ability to attract and retain outstanding and highly skilled individuals in the extremely competitive labor markets in which we compete. Such awards also are crucial to our ability to motivate our employees to achieve our goals.

Our executive officers and directors have an interest in the approval of the amendment to and restatement of the 2007 Plan because they are eligible for awards under the 2007 Plan.

Key Features of the 2007 Plan

The following is a summary of some of the key features of the 2007 Plan.

The 2007 Plan allows for the grants of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units and performance shares and other stock or cash awards as determined by the 2007 Plan administrator.

Each share subject to a stock-settled stock appreciation right at the time of grant will count as a full share against the 2007 Plan share reserve, rather than only the net shares issued upon exercise of the stock appreciation right.

Shares used to pay the tax and exercise price of an award will not become available for future grant or sale under the 2007 Plan.

Each award granted with an exercise price that is less than fair market value will count against the 2007 Plan s share reserve as two shares for every one share subject to such award.

Stock options and stock appreciation rights may not be granted with an exercise price less than 100% of the fair market value per share on the date of grant.

The 2007 Plan administrator may not, without stockholder approval, modify or amend an option or stock appreciation right to reduce its exercise price after it has been granted (except as otherwise provided in the 2007 Plan), or cancel any outstanding option or stock appreciation right and immediately replace it with a new option or stock appreciation right with a lower exercise price.

The 2007 Plan includes reasonable limits as to the maximum number of shares subject to awards that could be granted in each fiscal year of the Company to non-employee directors.

Summary of the 2007 Equity Incentive Plan

The following is a summary of the principal features of the 2007 Plan and its operation. The summary is qualified in its entirety by reference to the 2007 Plan itself set forth in ***Appendix A***.

The 2007 Plan provides for the grant of the following types of incentive awards: (i) stock options, (ii) stock appreciation rights, (iii) restricted stock, (iv) restricted stock units, (v) performance units and performance shares, and (vi) and other stock or cash awards. Each of these is referred to individually as an Award. Those who will be eligible for Awards under the 2007 Plan include employees, directors and consultants who provide services to the Company and its parent or subsidiaries. As of September 30, 2013, approximately 3,962 of our employees, directors and consultants would be eligible to participate in the 2007 Plan.

Number of Shares of Common Stock Available Under the 2007 Plan. The maximum aggregate number of shares that may be awarded and sold under the 2007 Plan is 8,000,000 shares. The shares may be authorized, but unissued, or reacquired common stock. As of October 28, 2013, 6,357,758 Awards have been granted under the 2007 Plan, 5,013,828 shares were subject to outstanding options, 61,234 shares were subject to outstanding restricted stock awards and 1,642,242 shares were available for future grants.

Shares subject to Awards granted with an exercise price less than the fair market value on the date of grant count against the share reserve as two shares for every one share subject to such an Award. To the extent that a share that was subject to an Award that counted as two shares against the 2007 Plan share reserve pursuant to the preceding sentence is returned to the 2007 Plan, the 2007 Plan reserve will be credited with two shares that will thereafter be available for issuance under the 2007 Plan.

If an Award expires or becomes unexercisable without having been exercised in full, or, with respect to restricted stock, restricted stock units, performance shares or performance units, is forfeited to or repurchased by the Company, the unpurchased shares (or for Awards other than options and stock appreciation rights, the forfeited or repurchased shares) which were subject thereto will become available for future grant or sale under the 2007 Plan. Upon exercise of a stock appreciation right settled in shares, the gross number of shares covered by the exercised portion of the stock appreciation right will cease to be available under the 2007 Plan. Shares that have actually been issued under the 2007 Plan under any Award will not be returned to the 2007 Plan and will not become available for future distribution under the 2007 Plan; provided, however, that if shares of restricted stock, restricted stock units, performance shares or performance units are repurchased by the Company or are forfeited to the Company, such shares will become available for future grant under the 2007 Plan as described above. Shares used to pay the exercise price of an Award and/or used to satisfy tax withholding obligations will not become available for future grant or sale under the 2007

Plan. To the extent an Award is paid out in cash rather than stock, such cash payment will not reduce the number of shares available for issuance under the 2007 Plan.

Effect of Certain Corporate Events. If we declare a stock dividend or engage in a reorganization or other change in our capital structure, including a merger, the Administrator will adjust the (i) number and class of shares available for issuance under the 2007 Plan, (ii) number, class and price of shares subject to outstanding Awards, and (iii) specified per-person limits on Awards to reflect the change.

Administration of the 2007 Plan. The board, or our compensation committee, or a committee of directors or of other individuals satisfying applicable laws and appointed by the board (referred to as the Administrator), will administer the 2007 Plan. To make grants to certain of the Company s officers and key employees, the members of the committee must qualify as non-employee directors under Rule 16b-3 of the Exchange Act, and as outside directors under Section 162(m) of the Code (so that the Company can receive a federal tax deduction for certain compensation paid under the 2007 Plan). Subject to the terms of the 2007 Plan, the Administrator has the sole discretion to select the employees, consultants, and directors who will receive Awards, to determine the terms and conditions of Awards, to modify or amend each Award (subject to the restrictions of the 2007 Plan), and to interpret the provisions of the 2007 Plan and outstanding Awards. The Administrator may, with stockholder approval, implement an exchange program under which (i) outstanding Awards may be surrendered or cancelled in exchange for Awards of the same type, awards of a different type, or cash, (ii) participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator, and/or (iii) the exercise price of an outstanding Award could be reduced.

Options. The Administrator is able to grant nonstatutory stock options and incentive stock options under the 2007 Plan. The Administrator determines the number of shares subject to each option, although the 2007 Plan provides that a participant may not receive options for more than 1,000,000 shares in any fiscal year, except in connection with his or her initial employment with the Company, in which case he or she may be granted an option covering up to an additional 1,000,000 shares.

The Administrator determines the exercise price of options granted under the 2007 Plan, provided the exercise price must be at least equal to the fair market value of our common stock on the date of grant. In addition, the exercise price of an incentive stock option granted to any participant who owns more than 10% of the total voting power of all classes of our outstanding stock must be at least 110% of the fair market value of the common stock on the grant date.

The term of each option will be stated in the Award agreement. The term of an option may not exceed ten years, except that, with respect to any participant who owns 10% of the voting power of all classes of the Company s outstanding capital stock, the term of an incentive stock option may not exceed five years.

After a termination of service with the Company, a participant will be able to exercise the vested portion of his or her option for the period of time stated in the Award agreement. If no such period of time is stated in the participant s Award agreement, the participant will generally be able to exercise his or her option for (i) three months following his or her termination for reasons other than death or disability, and (ii) twelve months following his or her termination due to death or disability. The participant s Award agreement may also provide that if the exercise of an option following the termination of the participant s status as a service provider (other than as a result of the participant s death or disability) would result in liability under Section 16(b) of the Exchange Act, then the option

will terminate on the earlier of (i) the expiration of the term of the option, or (ii) the 10th day after the last date on which such exercise would result in such liability under Section 16(b). The participant s Award agreement may also provide that if the exercise of an option following the termination of the participant s status as a service provider (other than as a result of the participant s death or disability) would be prohibited because the issuance of shares would violate securities laws, then the option will terminate on the earlier of (i) the expiration of the term of the option, or (ii) the expiration of a period of three months after the termination of the participant during which the exercise of the option would not violate securities laws.

Restricted Stock. Awards of restricted stock are rights to acquire or purchase shares of our common stock, which vest in accordance with the terms and conditions established by the Administrator in its sole discretion. For example, the Administrator may set restrictions based on the achievement of specific performance goals. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed. The Award agreement generally will grant the Company a right to repurchase or reacquire the shares upon the termination of the participant s service with the Company for any reason (including death or disability). The Administrator will determine the number of shares granted pursuant to an Award of restricted stock, but no participant will be granted a right to purchase or acquire more than 300,000 shares of restricted stock during any fiscal year, except that a participant may be granted up to an additional 300,000 shares of restricted stock in

connection with his or her initial employment with the Company.

Restricted Stock Units. Awards of restricted stock units result in a payment to a participant only if the vesting criteria the Administrator establishes is satisfied. For example, the Administrator may set vesting criteria based on the achievement of specific performance goals. The restricted stock units will vest at a rate determined by the Administrator; provided, however, that after the grant of restricted stock units, the Administrator, in its sole discretion, may reduce or waive any restrictions for such restricted stock units. Upon satisfying the applicable vesting criteria, the participant will be entitled to the payout specified in the Award agreement. The Administrator, in its sole discretion, may pay earned restricted stock units in cash, shares, or a combination thereof. Restricted stock units that are fully paid in cash will not reduce the number of shares available for grant under the 2007 Plan. On the date set forth in the Award agreement, all unearned restricted stock units will be forfeited to the Company. The Administrator determines the number of restricted stock units granted to any participant, but during any fiscal year of the Company, no participant may be granted more than 300,000 restricted stock units during any fiscal year, except that the participant may be granted up to an additional 300,000 restricted stock units in connection with his or her initial employment to the Company.

Stock Appreciation Rights. The Administrator will be able to grant stock appreciation rights, which are the rights to receive the appreciation in fair market value of common stock between the exercise date and the date of grant. The Company can pay the appreciation in either cash, shares of common stock, or a combination thereof. The Administrator, subject to the terms of the 2007 Plan, will have complete discretion to determine the terms and conditions of stock appreciation rights granted under the 2007 Plan, provided, however, that the exercise price may not be less than 100% of the fair market value of a share on the date of grant and the term of a stock appreciation right may not exceed ten years. No participant will be granted stock appreciation rights covering more than 1,000,000 shares during any fiscal year, except that a participant may be granted stock appreciation rights covering up to an additional 1,000,000 shares in connection with his or her initial employment with the Company.

After termination of service with the Company, a participant will be able to exercise the vested portion of his or her stock appreciation right for the period of time stated in the Award agreement. If no such period of time is stated in a participant s Award agreement, a participant will generally be able to exercise his or her vested stock appreciation rights for the same period of time as applies to stock options.

Performance Units and Performance Shares. The Administrator will be able to grant performance units and performance shares, which are Awards that will result in a payment to a participant only if the performance goals or other vesting criteria the Administrator may establish are achieved or the Awards otherwise vest. Earned performance units and performance shares will be paid, in the sole discretion of the Administrator, in the form of cash, shares, or in a combination thereof. The Administrator will establish performance or other vesting criteria in its discretion, which, depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. The performance units and performance shares will vest at a rate determined by the Administrator; provided, however, that after the grant of a performance unit or performance share, the Administrator, in its sole discretion, may reduce or waive any performance objectives

or other vesting provisions for such performance unit or performance share. During any fiscal year, no participant will receive more than 300,000 performance shares and no participant will receive performance units having an initial value greater than $2,000,000, except that a participant may be granted performance shares covering up to an additional 300,000 shares in connection with his or her initial employment with the Company. Performance units will have an initial value established by the Administrator on or before the date of grant. Performance shares will have an initial value equal to the fair market value of a share of our common stock on the grant date.

Performance Goals. Awards of restricted stock, restricted stock units, performance shares, performance units and other incentives under the 2007 Plan may be made subject to the attainment of performance goals relating to one or more business criteria within the meaning of Section 162(m) of the Code and may provide for a targeted level or levels of achievement including: earnings per share, operating cash flow, operating income, profit after-tax, profit before-tax, return on assets, return on equity, return on sales, revenue, and total stockholder return. The performance goals may differ from participant to participant and from Award to Award and may be used to measure the performance of the Company as a whole or a business unit of the Company and may be measured relative to a peer group or index.

To the extent necessary to comply with the performance-based compensation provisions of Section 162(m), with respect to any award granted subject to performance goals, within the first 25% of the performance period, but in no event more than 90 days following the commencement of any performance period (or such other time as may be required or permitted by Section 162(m)), the Administrator will, in writing: (i) designate one or more participants to whom an award will be made, (ii) select the performance goals applicable to the performance period, (iii) establish the performance goals, and amounts of such awards, as applicable, which may be earned for such performance period, and (iv) specify the relationship between performance goals and the amounts of such awards, as applicable, to be earned by each participant for such performance period. Following the completion of each performance period, the Administrator will certify in writing whether the applicable performance goals

have been achieved for such performance period. In determining the amounts earned by a participant, the Administrator will have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the administrator may deem relevant to the assessment of individual or corporate performance for the performance period. A participant will be eligible to receive payment pursuant to an award for a performance period only if the performance goals for such period are achieved.

Transferability of Awards. Awards granted under the 2007 Plan are generally not transferable, and all rights with respect to an Award granted to a participant generally will be available during a participant s lifetime only to the participant.

Change in Control. In the event of a merger or change in control of the Company, each outstanding Award will be treated as the Administrator determines, including that each Award will be assumed or an equivalent option or right substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation, or the parent or subsidiary of the successor corporation, does not assume or substitute for the Award, the participant will fully vest in and have the right to exercise all of his or her outstanding options or stock appreciation rights, including shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on restricted stock will lapse, and, with respect to restricted stock units, performance shares and performance units, all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met. In addition, if an option or stock appreciation right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a change in control, the Administrator will notify the participant in writing or electronically that the option or stock appreciation right will be fully vested and exercisable for a period of time determined by the Administrator in its sole discretion, and the option or stock appreciation right will terminate upon the expiration of such period.

Amendment and Termination of the 2007 Plan. The Administrator will have the authority to amend, alter, suspend or terminate the 2007 Plan, except that stockholder approval will be required for any amendment to the 2007 Plan to the extent required by any applicable laws. No amendment, alteration, suspension or termination of the 2007 Plan will impair the rights of any participant, unless mutually agreed otherwise between the participant and the Administrator and which agreement must be in writing and signed by the participant and the Company. The 2007 Plan will terminate in November 2017, unless the board terminates it earlier.

Non-Employee Director Award Limitations. The 2007 Plan limits the number of shares subject to Awards issued to a non-employee director in any fiscal year to 200,000 (increasing to 250,000 in the first year an individual serves as a non-employee director). Any Awards granted to an individual while he or she was an employee or consultant but not a non-employee director will not count for purposes of this limitation. The Board will adjust these share limitations in the event of any adjustment to the Company s shares discussed above (under Effect of Certain Corporate Events).

Number of Awards Granted to Employees, Consultants, and Directors

The number of Awards that an employee, director or consultant may receive under the 2007 Plan is in the discretion of the Administrator and therefore cannot be determined in advance. The following table sets forth the aggregate number of shares of common stock subject to options granted under the 2007 Plan during the last fiscal year, and the average per share exercise price of such options.

Name of Individual or Group	Number of Options Granted	Average Per Share Exercise Price
All executive officers, as a group	100,000	$29.24
All directors who are not executive officers, as a group	160,000	$30.02
All employees who are not executive officers, as a group	75,000	$29.89

Federal Tax Aspects

The following paragraphs are a summary of the general federal income tax consequences to U.S. taxpayers and the Company of Awards granted under the 2007 Plan. Tax consequences for any particular individual may be different.

Nonstatutory Stock Options. No taxable income is reportable when a nonstatutory stock option with an exercise price equal to the fair market value of the underlying stock on the date of grant is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the excess of the fair market value (on the exercise date) of the shares purchased over the exercise price of the option. Any taxable income recognized in connection with an option exercise by an employee of the Company is subject to tax withholding by the Company. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

As a result of Section 409A of the Code and the Treasury regulations promulgated thereunder (Section 409A), however, nonstatutory stock options and stock appreciation rights granted with an exercise price below the fair market value of the underlying stock or with a deferral feature may be taxable to the recipient in the year of vesting in an amount equal to the difference between the then fair market value of the underlying stock and the exercise price of such awards and may be subject to an additional 20% federal income tax plus penalties and interest. In addition, certain states, such as California, have adopted similar tax provisions that provide for additional penalties.

Incentive Stock Options. No taxable income is reportable when an incentive stock option is granted or exercised (except for purposes of the alternative minimum tax, in which case taxation is the same as for nonstatutory stock options). If the participant exercises the option and then later sells or otherwise disposes of the shares more than two years after the grant date and more than one year after the exercise date, the difference between the sale price and the exercise price will be taxed as capital gain or loss. If the participant exercises the option and then later sells or otherwise disposes of the shares before the end of the two- or one-year holding periods described above, he or she generally will have ordinary income at the time of the sale equal to the fair market value of the shares on the exercise date (or the sale price, if less) minus the exercise price of the option.

Stock Appreciation Rights. No taxable income is reportable when a stock appreciation right with an exercise price equal to the fair market value of the underlying stock on the date of grant is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the amount of cash received and the fair market value of any shares received. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

Restricted Stock, *Restricted Stock Units, Performance Units and Performance Shares*. A participant generally will not have taxable income at the time an Award of restricted stock, restricted stock units, performance shares or performance units are granted. Instead, he or she will recognize ordinary income in the first taxable year in which his or her interest in the shares underlying the Award becomes either (i) freely transferable, or (ii) no longer subject to substantial risk of forfeiture. However, the recipient of a restricted stock Award may elect to recognize income at the time he or she receives the Award in an amount equal to the fair market value of the shares underlying the Award (less any cash paid for the shares) on the date the Award is granted.

Section 409A. Section 409A of the Code, which was added by the American Jobs Creation Act of 2004, provides certain new requirements on non-qualified deferred compensation arrangements. Awards granted under the 1996 Plan with a deferral feature will be subject to the requirements of Section 409A, including discount stock options and stock appreciation rights discussed above. If an Award is subject to and fails to satisfy the requirements of Section 409A, the recipient of that award may recognize ordinary income on the amounts deferred under the Award, to the extent vested, which may be prior to when the compensation is actually or constructively received. Also, if an Award that is subject to Section 409A fails to comply with Section 409A s provisions, Section 409A imposes an additional 20% federal income tax on compensation recognized as ordinary income, as well as interest on such deferred compensation. Some states may also apply a penalty tax (for instance, California imposes a 20% penalty tax (which was reduced to 5% effective January 1, 2013) in addition to the 20% federal penalty tax). The Internal Revenue Service has not issued complete and final guidance under Section 409A and, accordingly, the requirements of Section 409A (and the application of those requirements to Awards issued under the 2007 Plan) are not entirely clear. **We strongly encourage recipients of such Awards to consult their tax, financial, or other advisor regarding the tax treatment of such Awards.**

Tax Effect for the Company. The Company generally will be entitled to a tax deduction in connection with an Award under the 2007 Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonstatutory stock option). Special rules limit the deductibility of compensation paid to the Company s chief executive officer (i.e., its principal executive officer) and to each of its three most highly compensated executive officers for the taxable year (other than the principal executive officer or principal financial officer). Under Section 162(m) of the Code, the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed $1,000,000. However, the Company can preserve the deductibility of certain compensation in excess of $1,000,000 if the conditions of Section 162(m) are met. These conditions include stockholder approval of the 2007 Plan, setting limits on the number of Awards that any individual may receive and for Awards other than certain stock options, establishing performance criteria that must be met before the Award actually will vest or be paid. The 2007 Plan has been designed to permit the Administrator (but not require) to grant Awards that are intended to qualify as performance-based for purposes of satisfying the conditions of Section 162(m), thereby permitting the Company to continue to receive a federal income tax deduction in connection with such Awards.

THE FOREGOING IS ONLY A SUMMARY OF THE EFFECT OF FEDERAL INCOME TAXATION UPON PARTICIPANTS AND THE COMPANY WITH RESPECT TO THE GRANT AND EXERCISE OF AWARDS UNDER THE 2007 PLAN. IT DOES NOT PURPORT TO BE COMPLETE, AND DOES NOT DISCUSS THE TAX CONSEQUENCES OF A PARTICIPANT S DEATH OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE OR FOREIGN COUNTRY IN WHICH THE PARTICIPANT MAY RESIDE.

Vote Required

The approval of the amended and restated 2007 Plan requires the affirmative vote of a majority of the votes cast on the proposal at the Annual Meeting.

Recommendation of our Board of Directors

Our board of directors unanimously recommends voting FOR the approval of the amendment and restatement of the 2007 Equity Incentive Plan and the number of shares reserved for issuance thereunder as disclosed in this proxy statement.

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PROPOSAL NUMBER THREE

APPROVAL OF THE GRANT OF STOCK OPTIONS TO OUR CHIEF EXECUTIVE OFFICER AND OUR PRESIDENT

General

We are seeking your approval to grant A. Jayson Adair, our chief executive officer, and Vincent W. Mitz, our president, each an option to acquire 2,000,000 and 1,500,000 shares of our common stock, respectively, on the terms described below. The exercise price of each option is expected to be the closing price of our common stock in trading on the Nasdaq Global Select Market on December 16, 2013, the date of the Annual Meeting.

If our stockholders approve the proposal, Mr. Adair and Mr. Mitz have agreed to forego all base salary and cash bonus compensation, other than a base salary of $1.00 per year, for a five-year period beginning on the initial vesting date of their respective stock option grant. In addition, each has agreed that he will not receive any additional stock options or other equity incentives during his respective five-year vesting period.

If the Annual Meeting is adjourned to a date later than December 16, 2013, we would expect the effective date of the stock option grants to be the later of the respective initial vesting date and the date of stockholder approval. In the event of an adjournment of the Annual Meeting to a date within a closed trading period under our insider trading policy, our compensation committee reserves the right to approve the grant of the options effective as of a future date falling within an open trading period and to implement the termination of cash compensation (other than $1.00 per year, per executive) upon the commencement of the respective initial vesting date of the stock option grant. In such event, all relevant terms of the option grants and the cash compensation would be revised as appropriate to reflect the actual grant date and initial vesting date.

Why have Mr. Adair and Mr. Mitz agreed to forego all cash and equity compensation (other than $1.00 per year) for five years in exchange for a stock option?

In April 2009, our stockholders approved the grant of stock options in lieu of cash and additional equity compensation structure to Mr. Adair, our then president, and Willis J. Johnson, our then chairman and chief executive officer. Given that Mr. Adair s previously granted stock option will fully vest in April 2014, Mr. Adair and Mr. Mitz proposed to our compensation committee to continue the grant of stock options in lieu of cash and additional equity compensation structure for each of them. Our board of directors and compensation committee believe that Mr. Adair and Mr. Mitz agreement evidences their extraordinary commitment to continue to grow Copart s business and increase stockholder value, as well as their strong belief in our business model and future prospects. Mr. Mitz joined Copart over 18 years ago and has served as our president since 2010. Mr. Adair has spent most of his working career at Copart, serving as our president between 1996 and 2010 and as our chief executive officer since 2010. Mr. Adair and Mr. Mitz have been instrumental in Copart s expansion from a regional salvage company to 206 facilities in

seven countries. Our compensation committee believes this sharing of risk is a strong and unique statement by Mr. Adair and Mr. Mitz. As Mr. Adair and Mr. Mitz develop and execute our corporate growth initiatives over the next five years, our board of directors and compensation committee believe that these option agreements will serve to align their individual interests with those of our stockholders to the maximum extent possible. In particular, because the value of the options on exercise will be directly correlated with the trading price of our common stock, Mr. Adair and Mr. Mitz will have substantial incentives to manage our business in ways that increase stockholder value.

What happens if the stock option grants are not approved?

If stockholders do not approve the stock option grant proposal, we will not grant the stock options. Mr. Adair and Mr. Mitz will remain eligible, during the term of their employment with Copart, to receive cash compensation (including salary and bonuses) and to be granted equity incentive awards.

Did independent directors of Copart approve this proposal?

Yes. Our compensation committee, which consists entirely of independent directors within the guidelines established by the Nasdaq Stock Market, LLC, approved the proposal and the related compensation arrangements. Daniel Englander, James Meeks, and Matt Blunt, who are independent directors, also approved the proposal and related compensation arrangements.

What is the required vote? Will Mr. Adair and Mr. Mitz be permitted to vote their shares with respect to the proposal?

We are required to obtain stockholder approval of the proposal under the rules of the Nasdaq Stock Market, LLC. Under applicable law, approval of the proposal requires the affirmative vote of a majority of the shares of our common stock that are present (in person or by proxy) and voting at the Annual Meeting.

As stockholders, Mr. Adair and Mr. Mitz would otherwise be entitled to vote their shares at the Annual Meeting. Mr. Adair and Mr. Mitz have determined, however, with the concurrence of our board of directors, that they will abstain from voting at the Annual Meeting any shares over which they exercise voting control.

As a result, our compensation committee and board of directors have determined that the proposal will not be implemented or deemed approved unless it is approved by the affirmative vote of a majority of the shares of our common stock that are present (in person or by proxy) and voting at the Annual Meeting, excluding the vote of any shares over which Mr. Adair or Mr. Mitz exercise voting control.

Have our independent directors indicated how they intend to vote their shares?

Each of our independent directors has indicated he intends to vote any shares over which he exercises voting control FOR the proposal.

How does the size of the option grant compare to Copart s total capitalization, and how did the compensation committee determine that the size of the grant was appropriate?

As of October 28, 2013, we had 125.5 million shares of our common stock outstanding. As a result, Mr. Adair s stock option grant represents approximately 1.6 percent (1.6%) of our outstanding common stock and Mr. Mitz stock option grant represents approximately 1.2 percent (1.2%) of our outstanding common stock. The compensation committee believed that sizable grants were appropriate to create the proper incentives for Mr. Adair and Mr. Mitz, particularly given their willingness to forego all cash and equity compensation for five years, other than a base salary of $1.00 per year. The compensation committee also noted that neither Mr. Adair nor Mr. Mitz will realize value from the options unless the value of the shares underlying the options increases, which will offset in part the potentially dilutive impact of the options.

What is the term of the options, and how will they vest? Under what circumstances will vesting accelerate?

Each option will have a ten (10) year term from the date of grant, subject to earlier termination if Mr. Adair or Mr. Mitz, as the case may be, cease to provide services to Copart as an employee, director, or consultant. If we terminate Mr. Adair or Mr. Mitz as a service provider at any time without cause, or they resign as a service provider for good reason upon or following a change-in-control , each of them will be able to exercise their option with respect to all shares for the full term of the option. If either of them is terminated as a service provider for any other reason, including a voluntary termination, each of them will be able to exercise the option, to the extent vested as of the date of termination, for a period of twelve months following such termination.

Each option will become exercisable over five years, subject to continued service, with twenty percent (20%) vesting on April 15, 2015, with respect to Mr. Adair, and the first anniversary of the grant date, with respect to Mr. Mitz, and the balance vesting ratably on a monthly basis over the subsequent four years. Each option will become fully vested, assuming continued service, on April 15, 2019, with respect to Mr. Adair, and the fifth anniversary of the grant date, with respect to Mr. Mitz. We currently expect the grant date to be the date of the Annual Meeting.

If prior to a change in control we terminate either executive s service without cause, then one hundred percent (100%) of the shares subject to that executive s stock option will immediately vest. If upon or following a change in control either we or a successor entity terminates the executive s service without cause, or the executive resigns for good reason, then one hundred percent (100%) of the shares subject to his stock option will immediately vest. For more information about these accelerated vesting provisions, including the definitions of cause, good reason, and change in control, please see the section captioned Potential Post-Employment Payments upon Termination or Change in Control contained in this proxy statement.

Will the stock options be granted under Copart s 2007 Plan?

No. Our compensation committee believes this unique compensation structure is a substantial deviation from our typical grant practices under the 2007 Plan. Our compensation committee elects to grant these options outside our 2007 Plan in order to avoid depleting our share reserve and to permit continued availability of reserves for grants to other key personnel.

What are the tax effects to Copart of the stock option grants?

We generally will be entitled to a tax deduction in connection with the stock options in an amount equal to the ordinary income realized by the executive upon the exercise of the stock option. While Section 162(m) of the U.S. Tax Code, Section 162(m), generally denies a corporate tax deduction for annual compensation exceeding $1 million to the chief executive officer, Mr. Adair, and to each our three most highly compensated executive officers for the tax year (other than the chief executive officer and chief financial officer), there is an exception for certain types of compensation that meet the qualifications of performance-based compensation within the meaning of Section 162(m). These qualifications include approval of the stock options and the individuals eligible to receive such options by an independent compensation committee and the stockholders. The stock options for Mr. Adair and Mr. Mitz have been structured so that, if approved by our stockholders, they qualify as performance-based compensation for purposes of Section 162(m), thereby permitting us to receive a full federal tax deduction in connection with them.

What are the accounting consequences to Copart of the stock option grants?

We will be required to recognize non-cash compensation expenses related to the stock options equal to their fair value on the date of grant as determined using the Black-Scholes valuation model, which is a recognized valuation model and the one we use to recognize stock option compensation expense for financial accounting purposes. The fair value would be recognized as compensation expense ratably over the vesting period of the stock options and reflected as a component of general and administrative expenses. Based on an assumed share value at the date of grant of $32.69 (the closing price of our common stock on the record date), current interest and dividend rates, and assumptions concerning volatility and option term, we currently estimate that we would recognize an annual non-cash stock compensation expense related to the stock option grants of approximately $4,058,680 for Mr. Adair and $3,044,010 for Mr. Mitz, in addition to any stock compensation expense we recognize for previously granted stock options that continue to vest. However, we will not be able to determine the final Black-Scholes valuation and the associated compensation expense until the time the options are granted. As a result, the actual compensation expense we are required to recognize for the stock options could differ materially from our current expectations. Among other factors, the current trading price of our common stock is a heavily weighted factor in the Black-Scholes valuation model, and differences between the closing price on the record date and the closing price on the date of grant are among the factors that could result in material differences between our actual and estimated compensation expense.

How will estimated annual future compensation if the stockholder proposal is not approved compare to estimated annual future compensation if it is approved (valuing the options based on their aggregate fair value at the time of grant)?

The following table provides information on the average annual compensation we currently estimate paying or expensing for Mr. Adair and Mr. Mitz in each of fiscal years 2014 through 2019 if the stock option grant proposal is *not* approved as compared to the estimated annual compensation we currently estimate paying or expensing during the stock option vesting period if the stock option grant proposal is approved.

For purposes of estimated compensation data from fiscal 2014 through fiscal 2019, if the stock option grant proposal is *not* approved, we have assumed a base salary for Mr. Adair of $1,000,000 prorated for fiscal 2014 and increasing to $1,250,000 for fiscal 2019 and for Mr. Mitz increasing from $650,000 for fiscal 2014 to $812,500 for fiscal 2019. We have also assumed increases in annual bonuses from $1,250,000 prorated in fiscal 2014 to $1,562,500 in fiscal 2019 for Mr. Adair and from $600,000 in fiscal 2014 to $787,500 in fiscal 2019 for Mr. Mitz. Finally, we have assumed that the compensation committee approves grants of options to acquire 300,000 shares of our common stock to Mr. Adair in each year except fiscal 2014, and 200,000 shares of our common stock to Mr. Mitz in each such fiscal year. Although these assumed stock option grants are larger than the average grants that would have been made to Mr. Adair and actually made to Mr. Mitz in recent years, our compensation committee strongly believes that options grants effectively align stockholder and management interests and, as a result, would expect to increase the equity incentive component of Mr. Adair and Mr. Mitz compensation if the proposal is not approved by the stockholders.

Under both scenarios shown in the table, the line item identified as equity compensation reflects our estimate of the aggregate fair value of stock options at the time of grant; these values do not reflect the actual compensation expense we would be required to recognize under FASB ASC Topic 718. The estimated future impact of these grants and prior grants on our general and administrative expenses are reflected in the table included with the question below. The Black-Scholes valuation relies on numerous assumptions, including the exercise price of the option, the estimated term of the option (which is based on our historic experience with option grants and not the actual term of the option), stock price volatility, anticipated dividend yield, and applicable interest rates. The actual fair value of the options will be determined based on circumstances at the time the options are granted, and changes in the assumptions underlying the Black-Scholes Option Pricing Model can result in material variations in the fair value calculated. For purposes of the table below, we have assumed, under both scenarios, an option term of 7.1 years, stock price volatility of 24.81%, interest rates of 1.91%, a zero percent dividend yield, and an exercise price of $32.69, the closing price of our common stock in trading on the Nasdaq Global Select Market on the record date.

	Estimated Average Annual Compensation if the Option Grants are *NOT* Approved (FY 2014 through 2019)		**Estimated Average Annual Compensation if the Option Grants are Approved (FY 2014 through FY 2019) (2)**	
	Mr. Adair (1)	**Mr. Mitz**	**Mr. Adair**	**Mr. Mitz**
Base Salary	$1,007,192	$ 731,250	$ 61,074	$ 121,719
Cash Bonuses	$1,258,990	$ 693,750	$ 76,341	$ 81,627
Equity Compensation	$2,027,815	$1,694,120	$3,989,510	$3,047,013
Total	$4,293,997	$3,119,120	$4,126,925	$3,250,359

(1) As approved by our stockholders in April 2009, Mr. Adair would become eligible for cash and equity compensation beginning on April 15, 2014.

(2) In the event this proposal number three is approved by our stockholders, Mr. Adair would become eligible for cash and equity compensation beginning on April 16, 2019 and Mr. Mitz would become eligible for cash and equity compensation beginning on December 17, 2018.

How will total compensation expense (including both cash expense and non-cash stock compensation expense) vary in future periods if the stockholder proposal is not approved and if it is approved?

The following table provides estimates of our future total compensation expense, including cash expense and non-cash stock option compensation expense, that would be reflected in our general and administrative expense under the scenarios where the stock option grants are approved and are *not* approved. Please note that in both scenarios, we include stock option compensation expense relating to prior period option

grants that will continue to vest during the periods indicated.

For purposes of estimated compensation expenses if the stockholder proposal is not approved, we have assumed a base salary of $1,000,000 for Mr. Adair prorated in fiscal 2014 and increases in base salary for Mr. Adair to $1,250,000 for fiscal 2019 and an increase in base salary of Mr. Mitz from $650,000 for fiscal 2014 to $812,500 for fiscal 2019. We have also assumed annual bonuses of $1,250,000 prorated in fiscal 2014 and increases to $1,562,500 in fiscal 2019 for Mr. Adair and assumed increases in annual bonuses from $600,000 in fiscal 2014 to $787,500 in fiscal 2019 for Mr. Mitz. Finally, we have assumed that the compensation committee approves grants of options to acquire 300,000 shares of our common stock to Mr. Adair (except in fiscal year 2014) and 200,000 shares of our common stock to Mr. Mitz in each such fiscal year. Although these assumed stock option grants are larger than the average grants that would have been made to Mr. Adair and actually made to Mr. Mitz in recent years, our compensation committee strongly believes that option grants effectively align stockholder and management interests and, as a result, would expect to increase the equity incentive component of Mr. Adair and Mr. Mitz compensation if the proposal is not approved by the stockholders. For purposes of the period from August 1, 2013 to July 31, 2014, the end of our 2014 fiscal year, we have prorated salary and bonus compensation based on these assumptions and based on the fact that, as approved by our stockholders in April 2009, Mr. Adair would become eligible for cash and equity compensation beginning on April 15, 2014.

Under the scenarios where the proposed grants are approved, we have assumed that cash compensation resumes in April 2019, with base salary set at $1,250,000 and an annualized bonus set at $1,562,500 for Mr. Adair and in December 2018 with base salary set at $812,500 and an annualized bonus set at $787,500 for Mr. Mitz.

For purposes of the following table, non-cash stock option compensation expense reflects our current estimates of charges that will be reflected under FASB ASC Topic 718, including with respect to prior period stock option grants that will continue to vest. For additional information about the non-cash stock compensation element of total compensation expense, please refer to the question immediately following the table below. In the next question, we identify the amount of non-cash stock compensation expense that is included with total compensation in the table accompanying this question as well as the assumptions underlying the stock option expense calculations.

	Total Cash and Equity Compensation Expense			
	Mr. Adair		**Mr. Mitz**	
Fiscal Year	**If proposed grants are approved**	**If proposed grants are *NOT* approved**	**If proposed grants are approved**	**If proposed grants are *NOT* approved**
2014	$4,827,445	$4,303,252	$3,583,585	$2,959,746
2015	$4,058,681	$2,971,302	$4,186,357	$3,121,882
2016	$4,058,681	$3,692,604	$3,507,614	$2,919,007
2017	$4,058,681	$4,413,906	$3,044,011	$2,931,272
2018	$4,058,681	$5,135,208	$3,044,011	$3,407,140
2019	$3,699,386	$5,247,708	$2,136,573	$3,375,673

How will your estimated non-cash stock option compensation reflected in general and administrative expense differ if the proposed grants are or are not approved?

The following table provides estimates of our future stock compensation expense under FASB ASC Topic 718 for Mr. Adair and Mr. Mitz as reflected in general and administrative expense under the scenarios where the stock option grants are approved and are *not* approved. These amounts are included as part of Total Compensation in

the table immediately preceding this question. Please note that in both scenarios, we include stock option compensation expense relating to prior period option grants that will continue to vest during the periods indicated.

Estimating future stock option compensation expense requires us to value stock options under the Black-Scholes Option Pricing Model and then amortize the resulting value over the relevant vesting period. As noted above, the Black-Scholes model relies on data that can only be determined at the time the grant is made. Our current estimates of these data could differ materially from those in effect at the time of grant. As a result, our actual compensation expense could differ materially from that reflected below.

For purposes of the following table, we have assumed that if the stock option grant proposal described in this proxy statement is *not* approved, we will grant Mr. Adair an option to acquire 300,000 shares of common stock in each of fiscal years 2015 to 2019, and Mr. Mitz an option to acquire 200,000 shares of common stock in each of fiscal years 2014 through 2019. As noted previously, these assumed option grants are larger than our recent grants actually were, or may have been in the case of Mr. Adair, but consistent with our compensation committee s expectations concerning the size of future equity incentives if the stockholder proposal is not approved. We have valued all options for purposes of the table below, including the options subject to stockholder approval at the Annual Meeting, under the Black-Scholes Option Pricing Model based on the following assumptions: an option term of 7.1 years; stock price volatility of 24.81%; interest rates of 1.91%; a zero percent dividend yield; and an exercise price of $32.69, the closing price of our common stock in trading on the Nasdaq Global Select Market on the record date.

	Estimated Annual Stock Option Compensation Expense Under FAS 123(R)			
	Mr. Adair		**Mr. Mitz**	
Fiscal Year	**If proposed grants are approved**	**If proposed grants are *NOT* approved**	**If proposed grants are approved**	**If proposed grants are *NOT* approved**
2014	$4,827,444	$3,643,662	$3,358,585	$1,709,746
2015	$4,058,680	$ 608,802	$4,186,356	$1,801,882
2016	$4,058,680	$1,217,604	$3,507,613	$1,529,007
2017	$4,058,680	$1,826,406	$3,044,010	$1,471,272
2018	$4,058,680	$2,435,208	$3,044,010	$1,877,140
2019	$2,874,898	$2,435,208	$1,141,504	$1,775,673

How can we compare the economic value of the stock option awards with prior compensation practices?

Our compensation committee believes that direct comparison of our current compensation structure and the proposed stock option grant structure is difficult if not impossible. Mr. Adair and Mr. Mitz have agreed to forego all their cash and additional equity compensation (other than an annual salary of $1.00 per year for each officer) over the next five years in exchange for the stock option grants. By doing so, they accept extraordinary compensation risks relating to the price of our common stock, including systemic market risks that would be unrelated to our actual operating performance. It is possible that Mr. Adair and Mr. Mitz could realize no value in connection with the stock option grants. However, generally accepted accounting principles require us to recognize stock compensation expense based on the value of the options on the grant date, and Securities and Exchange Commission rules require us to disclose these non-cash charges as compensation to the executives, in each case regardless of the ultimate value realized by Mr. Adair or Mr. Mitz. As a result, our compensation committee believes that a direct comparison of past compensation practices and the stock option proposal is not particularly meaningful.

Nevertheless, if our stockholders approve the stock option proposal, as described above, our non-cash compensation expense will increase substantially relative to historic amounts. As indicated above, the Black-Scholes valuation model, which relies on numerous assumptions, imputes a considerable value to the option rights we propose to grant and these grants will be reflected as compensation expense in our statement of operations. On the other hand, we will no longer incur any cash compensation expense for base salaries or cash bonus incentives for Mr. Adair or Mr. Mitz (other than $1.00 per year for each officer).

How does prior cash compensation compare to future cash compensation under the proposal?

The following table summarizes recent base salary and cash bonus payments to Mr. Adair and Mr. Mitz, assuming that for Mr. Mitz, such payments will cease on December 16, 2013 if the stock option grants are approved and will not be resumed before December 17, 2018 (other than $1.00 each in base salary per year), and for Mr. Adair, such payments will cease on April 14, 2014 if the stock option grants are approved

and will not be resumed before April 14, 2019 (other than $1.00 each in base salary per year).

	Mr. Adair				Mr. Mitz			
	FY 2012	FY 2013	(Estimate) FY2014 (1)	April 2014 through April 2019	FY 2012	FY 2013	(Estimate) FY2014 (1)	December 2013 through December 2018
Base Salary	$1	$1	$1	$5	$650,000	$650,000	$225,000	$5
Cash Bonuses	$	$	$	$	$600,000	$600,000	$	$

(1) Estimates for fiscal year 2014 assume stockholder approval of proposal three and no new payments of base salary or cash bonuses after April 14, 2014 for Mr. Adair and no further payments of base salary or cash bonuses after December 16, 2013 for Mr. Mitz. For fiscal 2014, Mr. Mitz current base salary is $650,000 per year. Mr. Adair s current base salary is $1.00 per year, but we estimate would increase to $1,000,000 effective April 15, 2014 if this proposal three is not approved.

What was the aggregate Black-Scholes value at the time of grant of recent equity incentive awards to Mr. Adair and Mr. Mitz?

The following table presents historic information concerning the aggregate fair value at the time of grant for options granted in each of the indicated fiscal years to Mr. Adair and Mr. Mitz. If the stockholder proposal is approved, no further grants will be made to Mr. Adair prior to April 14, 2019 or Mr. Mitz prior to December 17, 2018.

	Mr. Adair			Mr. Mitz		
Fiscal Year	Shares	Exercise Price	Black-Scholes Value (1)	Shares	Exercise Price	Black-Scholes Value (1)
2009	4,200,000	$15.327	$27,786,700	80,000	$19.775	$ 679,160
2010		$	$	350,000	$16.939	$2,553,210
2011		$	$	700,000	$19.366	$4,789,440
2012		$	$		$	$
2013		$	$		$	$

(1) Reflects the aggregate fair value of stock options at the time of grant under the Black-Scholes Option Pricing Model, based on the exercise price of the option, the estimated term of the option (which is based on our historic experience with option grants and not the contractual term of the option), stock price volatility, anticipated dividend yield, and applicable interest rates. For purposes of fiscal 2009 option grants, we assumed an option term of 6.97 7.11 years, stock price volatility of 35.59% 37.31%, a dividend yield of zero percent, an interest rate of 2.31% 3.05%, and an exercise price of $15.105 $19.775. For purposes of fiscal 2010 option grants, we assumed an option term of 7.11 years, stock price volatility of 34.74% 36.2%, a dividend yield of zero percent, an interest rate of 2.98% 3.03%, and an exercise price of $16.43 $17.32. For purposes of fiscal 2011 option grants, we assumed an option term of 6.75 7.11 years, stock price volatility of 27.818% 30.64%, a dividend yield of zero percent, an interest rate of 1.86% 2.88%, and an exercise price of $16.38 $20.56.

What other material terms of the stock options should I understand?

The following is a summary of other principal terms of the stock options. The summary is qualified in its entirety by reference to the form of Stand-Alone Option Agreement attached to this proxy statement as ***Appendix B***.

Administration of the Stock Options. The compensation committee will administer the stock options. The compensation committee will grant the awards. Each member of our compensation committee qualifies as a non-employee director under Rule 16b-3 of the Securities Exchange Act of 1933, as amended, and as an outside director under Section 162(m) of the Internal Revenue Code so that we can receive a federal tax deduction for certain compensation paid pursuant to the stock options.

General. The stock options will be granted as nonstatutory stock options

Transferability of Stock Options. The stock options are not transferable in any manner other than by the laws of descent or distribution, and all rights with respect to a stock option generally will be available during an executive s lifetime only to the executive.

Change in Control. In the event of a merger or change in control, the stock options will be treated as the administrator determines, including that each stock option will be assumed or an equivalent option or right substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation, or the parent or subsidiary of the successor corporation, does not assume or substitute for the stock options, the executive will fully vest in and have the right to exercise all of shares subject to the stock option. The administrator will notify the participant in writing or electronically that the stock option will be fully vested and exercisable for a period of time determined by the administrator in its sole discretion, and the stock option will terminate upon the expiration of such period.

Amendment. Subject to any stockholder approval requirements that may be imposed by applicable law or the rules of the Nasdaq Global Select Market, the stock options may be amended with the approval of the compensation committee and the individual executives.

How many options will Mr. Adair and Mr. Mitz receive after the effective date of the grants if the stockholder proposal is approved?

If the stock option proposal is approved, neither Mr. Adair nor Mr. Mitz will receive any additional stock option grants prior to the fifth anniversary of the initial vesting date of the stock options. The following is a summary of the number of shares subject to the stock options to be received by Mr. Adair and Mr. Mitz if this proposal is approved by the stockholders:

Name of Individual or Group	Number of Stock Options
A. Jayson Adair, CEO	2,000,000
Vincent W. Mitz, President	1,500,000
All current executive officers as a group	3,500,000
All current directors who are not executive officers, as a group	
All employees who are not executive officers, as a group	

The market value of a share of our common stock as of October 28, 2013, the record date for the Annual Meeting, was $32.69 per share, based on the closing sales price for our common stock reported on that date on the Nasdaq Global Select Market.

What are the federal tax aspects of the stock options?

The following paragraphs summarize the general federal income tax consequences to U.S. taxpayers and Copart of the stock options. Tax consequences for any particular individual may be different.

Nonstatutory Stock Options. No taxable income will be recognized by Mr. Adair or Mr. Mitz when the stock options are granted. Upon exercise, the executives will recognize ordinary income in an amount equal to the excess of the fair market value on the exercise date of the shares purchased over the exercise price. Any taxable income recognized in connection with the stock option exercise will be subject to tax withholding by us. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

Tax Effect for Copart. We generally will be entitled to a tax deduction in connection with the stock options in an amount equal to the ordinary income realized by the executive upon exercise of the stock option. Special

rules limit the deductibility of compensation paid to our chief executive officer, Mr. Adair, and to each of our three most highly compensated executive officers for the taxable year (other than the chief executive officer or chief financial officer). Under Section 162(m) of the Internal Revenue Code, the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed $1,000,000. However, we can preserve the deductibility of certain compensation in excess of $1,000,000 if the conditions of Section 162(m) are met. These conditions include stockholder approval of the stock options. The stock options have been structured so that they qualify as performance-based for purposes of Section 162(m), thereby permitting us to continue to receive a federal income tax deduction in connection with them.

THE FOREGOING IS ONLY A SUMMARY OF THE EFFECT OF FEDERAL INCOME TAXATION UPON EXECUTIVES AND COPART WITH RESPECT TO THE GRANT AND EXERCISE OF THE STOCK OPTIONS. IT DOES NOT PURPORT TO BE COMPLETE, AND DOES NOT DISCUSS THE TAX CONSEQUENCES OF AN EXECUTIVE S DEATH OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE OR FOREIGN COUNTRY IN WHICH AN EXECUTIVE MAY RESIDE.

Required Vote

The approval of option grants to each of Mr. Adair and Mr. Mitz requires the affirmative vote of a majority of the votes cast on the proposal at the annual meeting.

Recommendation of our Board of Directors

Our board of directors unanimously recommends that stockholders vote FOR the approval of the option grants to each of Mr. Adair and Mr. Mitz as disclosed in this proxy statement.

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PROPOSAL NUMBER FOUR

ADVISORY VOTE ON APPROVAL OF EXECUTIVE COMPENSATION

General

This year we are asking our stockholders to cast a non-binding advisory vote to approve the compensation of our named executive officers identified in the Fiscal Year 2013 Summary Compensation Table in the Executive Compensation section of this proxy statement as required by Section 14A of the Exchange Act. Section 14A was added to the Exchange Act by Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The advisory vote on the approval of executive compensation is a non-binding vote on the compensation of our named executive officers, as described in the *Compensation Discussion and Analysis* section, the tabular disclosure regarding such compensation, and the accompanying narrative disclosure, set forth in this proxy statement. The Dodd-Frank Act requires us to hold the non-binding advisory vote on the approval of execution compensation at least once every three years.

At our 2012 annual meeting of stockholders, we provided our stockholders with the opportunity to cast a non-binding advisory vote to approve the compensation of our named executive officers as disclosed in the proxy statement for our 2012 annual meeting of stockholders, and our stockholders overwhelmingly approved the proposal, with more than 97% of the votes cast in favor of the proposal to approve the executive compensation of our named executive officers. At our 2011 annual meeting of stockholders, we also asked our stockholders to indicate if we should hold an advisory vote to approve the compensation of our named executive officers every one, two, or three years, with our board of directors recommending an annual advisory vote. Because our board of directors views it as a good corporate governance practice, and because more than 92% of the votes cast were in favor of an annual advisory vote, we are again asking our stockholders to approve the compensation of our named executive officers as disclosed in this proxy statement.

Compensation Program and Philosophy

Our executive compensation program is designed to:

To attract and retain talented and experienced executives;

To motivate and reward executives whose knowledge, skills and performance are critical to our success; and

To incentivize our executives to manage our business to meet our long-term objectives and the long-term objectives of our stockholders.

Under this program, our named executive officers are rewarded for the achievement of specific short-term and long-term goals that enhance stockholder value. Stockholders are urged to read the Compensation Discussion and Analysis section of this proxy statement, which describes our executive compensation program and contains information about the fiscal 2013 compensation of our named executive officers. Our compensation committee and our board of directors believe that our compensation design and practices are effective in implementing our executive compensation goals.

We are asking our stockholders to indicate their support for the compensation of our named executive officers as described in this proxy statement by voting in favor of the following resolution:

RESOLVED, that the stockholders approve, on an advisory basis in a non-binding vote, the compensation of Copart, Inc. s named executive officers as disclosed pursuant to Item 402 of Securities and Exchange Commission Regulation S-K, including the Compensation Discussion and Analysis, the compensation tables and narrative disclosures set forth in the proxy statement relating to Copart s 2013 annual meeting of stockholders.

Required Vote

The affirmative FOR votes must exceed the votes cast AGAINST to approve, on an advisory basis, the compensation awarded to our named executive officers for the fiscal year ended July 31, 2013. You may vote FOR, AGAINST, or ABSTAIN on this proposal. Abstentions and broker non-votes are not counted as votes FOR or AGAINST this proposal.

Even though this say-on-pay vote is advisory and, therefore, will not be binding on us, our compensation committee and our board of directors value the opinions of our stockholders. Accordingly, to the extent there is a significant vote against the compensation of our named executive officers, we will consider our stockholders concerns, and our compensation committee will evaluate what actions may be necessary or appropriate to address those concerns.

Recommendation of our Board of Directors

Our board of directors unanimously recommends that stockholders vote FOR the approval of the compensation of our named executive officers as disclosed in this proxy statement.

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PROPOSAL NUMBER FIVE

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

General

Our audit committee has appointed Ernst & Young LLP as our independent registered public accounting firm to audit our consolidated financial statements for the current fiscal year ending July 31, 2014. A representative of Ernst & Young LLP is expected to be present at the annual meeting, will have the opportunity to make a statement if he or she desires to do so, and will be available to respond to appropriate questions. Stockholder ratification of the appointment of Ernst & Young LLP is not required by our bylaws or otherwise. Our audit committee is submitting the appointment of Ernst & Young LLP to the stockholders for ratification as a matter of good corporate practice.

In the event our stockholders fail to ratify the appointment of Ernst & Young LLP, our audit committee will reconsider its selection. Even if the selection of the independent registered public accounting firm is ratified by our stockholders, our audit committee may, in its discretion, direct the appointment of a different independent registered public accounting firm at any time during the year if it feels that such a change would be in the best interests of the company and our stockholders.

Vote Required

The affirmative FOR votes must exceed the votes cast AGAINST to approve, on an advisory basis, the compensation awarded to our named executive officers for the fiscal year ended July 31, 2014. You may vote FOR, AGAINST, or ABSTAIN on this proposal. Abstentions are not counted as votes FOR or AGAINST this proposal.

Recommendation of our Board of Directors

Our board of directors unanimously recommends that stockholders vote FOR the ratification of the appointment of Ernst & Young LLP to serve as our independent registered public accounting firm for the fiscal year ending July 31, 2014.

* * * * *

Auditor Fees and Services

The following table sets forth the aggregate fees for professional services rendered for the audit of our consolidated annual financial statements by our independent registered public accounting firm, Ernst & Young LLP, for fiscal years ended July 31, 2013 and 2012. The table also includes fees billed for audit services, audit-related services, tax services and all other services rendered by Ernst & Young LLP for fiscal years ended July 31, 2013 and 2012:

Nature of Service	Fiscal Year 2013	Fiscal Year 2012
Audit Fees(1)	$1,487,200	$1,534,300
Audit-Related Fees(2)	$ 7,000	$ 13,200
Tax Fees(3)	$ 627,500	$ 167,800
All Other Fees(4)	$ 2,300	$ 2,300
Total Fees	$2,124,000	$1,717,600

(1) Audit fees consist of fees billed for professional services rendered for the audit of our consolidated financial statements and review of our interim consolidated financial statements included in quarterly reports and services that are normally provided in connection with statutory and regulatory filings or engagements.

(2) Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and that are not reported under Audit Fees. These services include employee benefit plan audits, accounting consultations in connection with acquisitions, attest services that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards.

(3) Tax fees consist of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state, and international tax compliance, tax audit defense, customs and duties, mergers and acquisitions, and international tax planning.

(4) Consists of fees for products and services other than the services reported above.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

Our audit committee s policy is to pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm (or subsequently approving audit and permitted non-audit services in those circumstances where a subsequent approval is necessary and permissible). These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year. For fiscal years 2013 and 2012, all audit-related fees, tax fees, and all other fees were pre-approved. Our independent registered public accounting firm and management are required to periodically report to our audit committee regarding the extent of services provided by our independent registered public accounting firm in accordance with this pre-approval. Our audit committee may also pre-approve particular services on a case-by-case basis. In addition, the charter of our audit committee provides that our audit committee may delegate to one or more designated members the authority to pre-approve audit and permissible non-audit services, provided such pre-approval decision is presented to our audit committee at its scheduled meetings.

Report of the Audit Committee

The audit committee of Copart s board of directors consists of Messrs. Cohan, Englander and Blunt. The audit committee has reviewed and discussed with management and Ernst & Young LLP Copart s audited consolidated financial statements and financial reporting processes. Copart s management has the primary responsibility for Copart s financial statements and financial reporting processes, including the system of internal controls. Ernst & Young LLP, Copart s current independent registered public accounting firm, is responsible for performing an independent audit of Copart s consolidated financial statements and for expressing an opinion on the conformity of those financial statements with generally accepted accounting principles. The audit committee reviews and monitors these processes and receives reports from Ernst & Young LLP and management. The audit committee also discusses with Ernst & Young LLP the overall scope and plans of their audits, their evaluation of our internal controls, and the overall quality of Copart s financial reporting processes.

In accordance with the statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board (PCAOB) in Rule 3200T, the audit committee had discussions with management and the independent registered public accounting firm regarding the acceptability and the quality of the accounting principles used in the reports. These discussions included the clarity of the disclosures made therein, the underlying estimates and assumptions used in the financial reporting, and the reasonableness of the significant judgments and management decisions made in developing the financial statements. In addition, the audit committee has discussed with the independent registered public accounting firm their independence from Copart and its management and the independent registered public accounting firm provided the written disclosures and the letter required by the Public Company Accounting Oversight Board Rule 3526, Communication with Audit Committees Concerning Independence and considered the compatibility of non-audit services with the independent registered public accounting firm s independence.

On an annual basis, the audit committee obtains from the independent registered public accounting firm a written communication delineating all their relationships and professional services as required by The Public Company Accounting Oversight Board (PCAOB) Rule 3526, Communication with Audit Committees Concerning

Independence. In addition, the audit committee reviewed with the independent registered public accounting firm the nature and scope of any disclosed relationships or professional services and took, or recommended that Copart s board of directors take, appropriate action to ensure the continuing independence of the independent registered public accounting firm.

Based upon the reviews, discussions and considerations referred to above, the audit committee has recommended to the board of directors that Copart s audited consolidated financial statements be included in Copart s Annual Report on Form 10-K for fiscal year 2013, and that Ernst & Young LLP be appointed as the independent registered public accounting firm for Copart for the fiscal year ending July 31, 2014.

Respectfully submitted by:

The audit committee of the board of directors

Steven D. Cohan (chairman)
Daniel J. Englander
Matt Blunt

The preceding report of the audit committee shall not be deemed to be soliciting material or to be filed with the SEC or subject to Regulation 14A or 14C (17 CFR 240.14a-1 through 240.14b-2 or 240.14c-1 through 240.14c-101), other than as provided in Item 407(d) of Regulation S-K, or to the liabilities of section 18 of the Exchange Act (15 U.S.C. 78r), except to the extent we specifically request that the information be treated as soliciting material or specifically incorporate it by reference into a document filed under the Securities Act or the Exchange Act. Such information will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference.

EXECUTIVE OFFICERS

Our executive officers and their ages as of October 28, 2013 were as follows:

Name	Age	Position
Willis J. Johnson	66	Chairman of the Board
A. Jayson Adair	44	Chief Executive Officer and Director
Vincent W. Mitz	50	President
William E. Franklin	57	Senior Vice President and Chief Financial Officer
Paul A. Styer	57	Senior Vice President, General Counsel and Secretary
Robert H. Vannuccini	47	Senior Vice President, Sales
Russell D. Lowy	54	Senior Vice President and Chief Operating Officer
Thomas E. Wylie	62	Senior Vice President, Human Resources
Vincent J. Phillips	53	Senior Vice President and Chief Information Officer
Matthew M. Burgener	38	Senior Vice President, Marketing
Anthony F. Cristello	44	Senior Vice President, Business Development
John Lindle	41	Senior Vice President, Strategic Growth
Simon E. Rote	41	Vice President, Finance

Willis J. Johnson, founder of Copart, has, since January 2004, served as chairman of our board of directors. From 1982 until February 2010, Mr. Johnson served as our chief executive officer and from 1986 until 1995, he also served as our president. Mr. Johnson was an officer and director of U-Pull-It, Inc. (UPI), a self-service auto dismantler, which he co-founded, from 1982 through September 1994. Mr. Johnson sold his entire interest in UPI in September 1994.

A. Jayson Adair has served as our chief executive officer since February 2010. From November 1996 to February 2010, Mr. Adair served as our president. From 1995 until 1996, Mr. Adair served as our executive vice president. From 1990 until 1995, Mr. Adair served as our vice president of sales and operations, and from 1989 to 1990, Mr. Adair served as our manager of operations.

Vincent W. Mitz has served as our president since February 2010. From August 2007 to February 2010, Mr. Mitz served as our executive vice president. From May 1995 until July 2007, Mr. Mitz served as our senior vice president of marketing. Previously, Mr. Mitz was employed by NER Auction Systems Inc. (NER), an automotive auction company, from 1981 until its acquisition by Copart in 1995. At NER, Mr. Mitz held numerous positions, most recently as vice president of sales and operations for NER s New York region from 1990 to 1993 and vice president of sales & marketing from 1993 to 1995.

William E. Franklin has served as our senior vice president and chief financial officer since March 2004. Mr. Franklin has over 20 years of international finance and executive management experience. From October 2001 to March 2004, Mr. Franklin served as the chief financial officer of Ptek Holdings, Inc., an international telecommunications company. Prior to that he was the president and chief executive officer of Clifford Electronics, an international consumer electronics company. Mr. Franklin received a Master s degree in Business Administration from the University of Southern California and his Bachelor of Science degree in Finance from California State University, Bakersfield. Mr. Franklin is a certified public accountant.

Paul A. Styer has served as our general counsel since September 1992, our corporate secretary since October 1993, and our senior vice president since April 1995. From September 1992 until April 1995, Mr. Styer served as our vice president. Mr. Styer served as one of our directors from September 1992 until October 1993. From August 1990 to September 1992, Mr. Styer conducted an independent law practice. Mr. Styer received a B.A. from the University of California, Davis and a J.D. from the University of the Pacific. Mr. Styer is a member of the State Bar of California.

Robert H. Vannuccini has served as our senior vice president, sales since July 2007. From 1999 to 2007, Mr. Vannuccini served as our vice president of national accounts. From 1995 to 1999, Mr. Vannuccini served as

our midwest regional account manager. Prior to that, Mr. Vannuccini was employed by NER as the midwest regional account manager from 1994 until its acquisition by Copart in 1995. Prior to his experience at NER, Mr. Vannuccini was an assistant vice president with Fleet Financial Group, a northeastern bank that was acquired by Bank of America, N.A. in 2004, from 1991 to 1994. Mr. Vannuccini received his Bachelor of Business Administration degree in Banking and Finance from Hofstra University, Hempstead, New York in 1988.

Russell D. Lowy has served as our senior vice president and chief operating officer since July 2007. From July 2002 to July 2007, Mr. Lowy served as our senior vice president of operations. Mr. Lowy served as our vice president of operations, eastern division from December 1999 to July 2002. From December 1998 to December 1999, Mr. Lowy served as our director of training and auditing. Mr. Lowy served as our assistant vice president of operations from 1996 to 1997, regional manager of northern California from 1995 to 1996, and marketing manager from 1993 to 1994. Prior to joining us, Mr. Lowy spent nine years with ADP Claims Solutions Group, a provider of computing services to automobile dealers. Mr. Lowy received a B.S. in Business Administration from California State University, Chico in 1982.

Thomas E. Wylie has served as our senior vice president, human resources since November 2003. Mr. Wylie has over 25 years of human resources and organizational change management experience. From January 2001 to November 2003 he served as vice president, human resources, systems and administration for the California Division of Kaiser Permanente, a health care organization headquartered in Oakland, California. Prior to that he was the vice president of human resources for global business services, a division of Honeywell International Inc. (Honeywell), a diversified technology and manufacturing company, in Morristown, New Jersey. He held several other positions with Honeywell starting in 1979. Mr. Wylie received a Bachelor s degree from Hamline University in St. Paul, Minnesota.

Vincent J. Phillips has served as our senior vice president and chief information officer since April 2010. Prior thereto in 2009, Mr. Phillips was vice president of product development of Charles River Development, a provider of technology systems and services to the financial industry. From 1989 to 2008, Mr. Phillips was employed by The Charles Schwab Corporation, an online trading and investing company, most recently as chief executive officer of its subsidiary, Cybertrader, Inc. Mr. Phillips received a Bachelor s degree from the University of California, San Diego.

Matthew M. Burgener has served as our senior vice president, marketing since July 2011. Mr. Burgener has over 12 years of digital marketing and ecommerce experience. From 2008 to July 2011, he was senior vice president of Digital Marketing at Bank of America, N.A., and from 2006 to 2007, Mr. Burgener was the vice president, eCommerce Sales and Fulfillment at Bank of America, N.A. From 2004 to 2006, Mr. Burgener was the senior marketing manager for LendingTree, LLC, an online home mortgage marketplace. Mr. Burgener received a Master s degree in Business Administration from the University of Virginia s Darden School of Business and a Bachelor s degree from Colby College.

Anthony F. Cristello has served as our senior vice president, business development since March 2012. From January 2010 to February 2012, Mr. Cristello served as managing director-head of consumer research group at BB&T Capital Markets (BBT), a part of BB&T Corporation,

publicly traded financial services holding company. From April 2005 to December 2009, Mr. Cristello served as senior vice president, equity analyst at BBT and from November 2000 through April 2005, he served as vice president, equity analyst at BBT. Mr. Cristello received a Bachelor s degree from Virginia Commonwealth University.

John Lindle has served as our senior vice president, strategic growth since June 2013. Mr. Lindle co-founded QCSA, a vehicle remarketing company, in 1999, and served as its president, chief executive officer and as a member of its board of directors, until we acquired QCSA in June 2013. Prior to that Mr. Lindle spent his time in the body shop industry from 1990 to 1999.

Simon E. Rote has served as our vice president of finance since March 2003. Prior thereto, Mr. Rote served as our controller from December 1998 to March 2003, and as our assistant controller from December 1997 to December 1998. Mr. Rote was an auditor with KPMG LLP, an auditing and tax advisory firm, from 1994 to 1997. Mr. Rote received a B.S. in Accounting from St. Mary s College in 1994.

Our executive officers are elected by our board of directors and serve at the discretion of our board. There are no family relationships among any of our directors or executive officers, except that A. Jayson Adair is the son-in-law of Willis J. Johnson.

EXECUTIVE COMPENSATION

Forward-Looking Statements

This proxy statement, including the section entitled Compensation Discussion and Analysis set forth below, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. These statements are based on our current expectations and involve risks and uncertainties, which may cause our actual results to differ materially from those anticipated by forward-looking statements. The forward-looking statements may include statements regarding actions to be taken by us in the future. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise. Forward-looking statements should be evaluated together with the many uncertainties that affect our business, particularly those mentioned in the section on forward-looking statements and in the risk factors in Item 1A of our Annual Report on Form 10-K for the fiscal year ended July 31, 2013 and in our periodic reports on Form 10-Q and current reports on Form 8-K as filed with the SEC.

Compensation Discussion and Analysis

Overview of Executive Compensation Programs

This section of our proxy statement provides an overview of our executive compensation programs, the material decisions we have made with respect to each element of our executive compensation program, and the material factors we considered when making those decisions. Following this discussion, you will find further information in the executive compensation tables about the compensation earned by or paid to each of our named executive officers, including details of fiscal 2013 compensation of our named executive officers in the Fiscal Year 2013 Summary Compensation Table. Currently, we have thirteen executive officers, five of which are our named executive officers. For fiscal 2013, our named executive officers consist of (i) our chief executive officer, (ii) our chief financial officer, and (iii) our three most highly compensated executive officers other than our chief executive officer and chief financial officer, each of whom was serving as an executive officer on July 31, 2013, the end of our 2013 fiscal year. For fiscal 2013, our named executive officers were A. Jayson Adair, our chief executive officer; William E. Franklin, our chief financial officer; Vincent W. Mitz, our president; Robert H. Vannuccini, our senior vice president, sales; and Russell D. Lowy, our senior vice president and chief operating officer.

Role of Our Compensation Committee

The compensation committee of our board of directors administers our executive compensation programs. The compensation committee seeks to ensure that the total compensation paid to our executive officers is fair and reasonable, and serves the best interests of Copart and our

stockholders. In carrying out its responsibilities, the committee:

Participates in the continuing development of, and reviews and approves changes in, our compensation policies;

Reviews and approves each element of executive compensation, taking into consideration management recommendations; and

Administers our equity incentive plans, for which it retains authority to approve grants of awards to any of our executive officers.

In addition, the charter of our compensation committee provides that our compensation committee may form and delegate authority to subcommittees when appropriate.

Our compensation committee consisted of Messrs. Cohan and Englander from August 1, 2012 until June 4, 2013 and Messrs. Cohan, Englander and Tryforos from June 4, 2013 through the end of fiscal 2013. Our board of directors has determined that each of the foregoing members of the compensation committee were or are an

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independent director under NASDAQ rules, an outside director for purposes of Section 162(m) of the Internal Revenue Code, and a non-employee director for purposes of Rule 16b-3 under the Exchange Act.

Our compensation committee operates according to a charter that details its specific duties and responsibilities. A copy of the charter is available in the Investor Relations section of our corporate website at http://www.copart.com/c2/pdf/compensation_cc.pdf.

Role of Management in Compensation Process

Our chief executive officer, president, chief financial officer, and senior vice president of human resources support our compensation committee s work by providing our compensation committee with information related to our financial plans, performance assessments of our executive officers, and other personnel-related data.

Each executive officer participates in our annual goal-setting and performance measurement process applicable to all employees. As part of this annual process, each executive officer proposes qualitative, individual goals and objectives for the coming fiscal year that are intended to promote continuing organizational and process improvements and contribute to our financial strength. These proposed goals are then reviewed with each executive officer, and are subsequently approved following that review, by our chief executive officer and our president. Our compensation committee does not participate in the setting of qualitative goals and objectives for our executive officers. Each officer s goals are specifically tailored to his or her function and may vary from year to year. Our chief executive officer, as the person to whom our other officers directly report, is responsible for evaluating individual officers contributions to corporate objectives as well as their performance relative to individual objectives. Assessment of individual performance may include objective criteria, such as the execution of projects in a timely manner, but is largely subjective.

Following the end of each fiscal year and after the completion of the performance measurement process described above, our chairman and chief executive officer make recommendations to our compensation committee with respect to all elements of compensation for each of our executive officers other than themselves. Our compensation committee then discusses these recommendations, first with the chairman and chief executive officer present and then in executive session without members of management present. Members of management do not participate in final determinations of their own compensation. Our compensation committee is solely responsible for the final approval of all forms of executive compensation and, while the committee considers the recommendations of management, it does not always follow those recommendations.

Our compensation committee has the authority under its charter to engage the services of outside advisors for assistance. Our compensation committee has neither relied on nor has it retained outside advisors for purposes of making determinations with respect to executive compensation.

Compensation Philosophy and Program Design

The principal objectives of our compensation and benefits programs for executive officers are to:

Attract and retain senior executive management;

Motivate their performance toward corporate objectives; and

Align their long-term interests with those of our stockholders.

Our compensation committee believes that maintaining and improving the quality and skills of our management team and appropriately providing incentives for their performance are critical factors that will affect the long-term value realized by our stockholders.

As further described below, compensation for our executive officers has historically consisted of four main elements: base salary, cash bonus, equity-based incentive awards, and benefits and perquisites. Other than with respect to Mr. Adair, whose equity compensation program is described below, our compensation committee has not adopted any formal or informal policies or guidelines for allocating compensation between cash and equity compensation or among different forms of non-equity compensation for our executive officers. Our compensation committee believes that a substantial portion of an executive officer s compensation should be performance-based,

whether in the form of cash bonus or equity compensation. We consider performance-based compensation to be the portion of an executive s total compensation that is determined based on the executive s individual contribution to our strategic goals and operating results, as in the case of discretionary cash bonuses and equity awarded in recognition of individual performance. As discussed below, Mr. Adair s compensation program is entirely performance based as his ability to realize any material compensation from us during the five year period from April 2009 to April 2014 depends on the market price performance of our common stock. Our other executive officers also participate in our equity compensation programs, and we have historically paid discretionary cash bonuses based principally on the recommendation of our chief executive officer and largely subjective reviews by our compensation committee of corporate and individual performance.

Historically, we have not determined our compensation levels based on specific peer company benchmarks or analyses prepared by outside compensation consultants. Rather, our compensation committee has based its determinations on the committee s collective assessment of quantitative, as well as subjective, factors relating to corporate and individual performance and on the committee s experience and view of appropriate levels of compensation in light of our size, operating budgets, the historically increasing scope of our operations, including its increased geographic scope, and the responsibilities and performance of the individual officer.

Our compensation committee traditionally makes its determinations concerning base salary, cash bonuses and additional equity incentive awards annually after the end of each fiscal year, based on a review of our financial performance during the prior fiscal year, as measured against the operating plan approved by the board of directors for the applicable fiscal year, each individual officer s contribution toward that performance, and the recommendations of our chairman and chief executive officer. Although the committee has historically not identified specific financial performance targets, its annual analysis has focused on quantitative factors such as trends in our revenues and earnings per share. Our compensation committee does not take a formulaic approach to setting compensation for our executive officers, but does consider whether we have met or exceeded our operating plan for a particular fiscal year when making its determinations of appropriate levels of compensation for our executive officers. The committee also reviews subjective factors such as the growth in the scope of our operations, our performance in effectively integrating acquisitions, and our performance in implementing key corporate strategic initiatives.

Our compensation committee believes that our historic levels of executive compensation have been reasonable and appropriate in light of the size of our business, both financially and operationally, the substantial contribution of our long-tenured executive team in contributing to our historical growth, and the need to retain our key executive officers who have substantial levels of industry and Copart-specific experience. With the exception of our chief financial officer, who has been employed with us for over nine and one-half years, each of our named executive officers has been employed with us for over a decade and with either us or a company we acquired for tenures ranging from 19 to over 30 years.

2012 Advisory Stockholder Vote on Executive Compensation

We value the opinions of our stockholders, and, as noted above, our compensation committee considers whether our executive compensation serves the best interests of our stockholders. In that respect, as part of its ongoing review of our executive compensation, the compensation committee considered the results of our 2012 say-on-pay vote. At our 2012 annual meeting of stockholders, more than 97% of the votes cast on the say-on-pay proposal were in favor of the executive compensation of our named executive officers described in last year s proxy statement. In light of this strong stockholder support, our compensation committee affirmed our general principles and objectives relating to executive

compensation and continues to apply such principles and objectives to our executive compensation program.

Compensation of Mr. Adair

In 2008, Willis J. Johnson, then our chairman and chief executive officer, and Mr. Adair, then our president, presented our compensation committee with a proposal for a compensation arrangement in which they would forego all salary and bonus compensation, other than $1.00 per year, in exchange for a sizable stock option grant. In addition, they would agree to forego any additional equity incentives until the options were fully vested. Our

compensation committee believed the proposal demonstrated an extraordinary commitment to us and our stockholders by our senior management and offered strong evidence of their conviction concerning our strategy and prospects.

Over the course of the next several months, members of our compensation committee, individually among themselves and in periodic meetings, further discussed management s proposal concerning equity in lieu of cash and other equity compensation. Mr. Johnson and Mr. Adair participated in several, but not all, of these discussions. Among the factors discussed and considered by our compensation committee in making its final determination were the following:

- The extent to which the proposal achieved our compensation committee s objective of aligning management interests with stockholder interests;

- The accounting implications and associated non-cash compensation expense of the equity proposal as compared to the cash and non-cash compensation expense that would result from continuing current compensation arrangements;

- The impact of the equity proposal on our cash position relative to the anticipated impact of continuing current compensation arrangements; and

- The terms and conditions of the equity incentive, including whether it consisted of stock options or restricted stock and the vesting terms and conditions of the proposed equity issuance.

Following extensive analysis and discussions among our compensation committee members, our compensation committee met and approved a stock option in lieu of cash or additional equity compensation program for Mr. Johnson and Mr. Adair on March 4, 2009. Specifically, subject to stockholder approval, our compensation committee and board of directors, excluding Mr. Johnson and Mr. Adair, approved the grant of a non-qualified stock option to each of Mr. Johnson and Mr. Adair on the following terms:

Number of Shares Subject to Option	4,000,000 (1) shares of our common stock for each of Mr. Johnson and Mr. Adair.
Exercise Price	Equal to the closing price of our common stock in trading on the NASDAQ on the date of grant.
Vesting	20% of the shares become exercisable on the first anniversary of the date of grant; the balance of the shares become exercisable on a monthly basis over 48 months at the rate of 66,666 shares per month.
Vesting Acceleration Triggers	Upon a termination of the officer s employment by us without cause (as defined) before or following a change in control or resignation for good reason (as defined) following a change in control, the option would become fully vested.
Option Term	10 years; provided that in the event of a voluntary termination (other than for good reason following a change-in-control) or involuntary termination for cause at any time, to the extent vested, within twelve (12) months of the date of termination.

(1) Throughout this proxy statement all share and per share amounts have been adjusted as appropriate to reflect our two-for-one stock split effected in the form of a stock dividend, which was distributed after close of trading on March 28, 2012 to our stockholders of record as of March 23, 2012.

On April 14, 2009, our stockholders (with Messrs. Johnson and Adair abstaining from the vote) approved the equity grants for Messrs. Johnson and Adair described above, and each was granted an option to purchase 4,000,000 shares of our common stock on the terms and conditions set forth above with an exercise price of $15.11 per share,

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which equaled the fair market value of our common stock on the date of grant. As a result, Messrs. Johnson and Adair are not eligible to be considered for any additional compensation other than their salaries of $1.00 per year and appropriate benefits and perquisites during the five-year vesting term of the stock options.

Principal Components of Executive Compensation

The following discussion outlines the principal elements of executive compensation for our named executive officers other than Mr. Adair.

Base Salary

We pay an annual base salary to each of our executive officers (other than Messrs. Johnson and Adair) in order to provide them with a fixed rate of cash compensation during the year. Base salary for our executive officers reflects the scope of their respective responsibilities, seniority, and competitive market factors. Salary adjustments are determined by our compensation committee, generally following its review of recommendations from the chairman and chief executive officer. Any adjustments are made following consideration of competitive factors, our overall financial results, our budget requirements and the committee s assessment of individual performance.

2013 Base Salary. In October 2012, our compensation committee met to review base salaries for the named executive officers and approved base salaries for our named executive officers for fiscal 2013. At that meeting, the committee determined that it would increase base salaries because of the increased responsibilities with respect to international operations and increased unit volume in North America. The compensation committee did not increase the base salary of Mr. Mitz as it determined the overall compensation package provided to him was competitive. The compensation committee did not rely on any formal compensation survey data in making its assessment.

2014 Base Salary. Our compensation committee met again in October 2013, in part to consider executive officer base salaries for fiscal 2014. At that meeting, the committee determined that it would increase base salaries because of the increased responsibilities following our QCSA acquisition. The base salary increases were made retroactive to September 27, 2013. The compensation committee did not increase the base salary of Mr. Mitz as it determined the overall compensation package provided to him was competitive. The compensation committee did not rely on any formal compensation survey data in making its assessment.

The following table presents base salary information for the named executive officers for fiscal year 2013 and 2014:

Named Executive Officer	2013 Base Salary	2014 Base Salary	Change
A. Jayson Adair	$ 1	$ 1(1)	
Vincent W. Mitz	$650,000	$225,000(1)	
William E. Franklin	$325,000	$345,000	6.2%
Robert H. Vannuccini	$275,000	$295,000	7.3%
Russell D. Lowy	$290,000	$310,000	6.9%

(1) Estimates for fiscal year 2014 assume stockholder approval of proposal three and no new payments of base salary or cash bonuses after April 14, 2014 for Mr. Adair and no further payments of base salary or cash bonuses after December 16, 2013 for Mr. Mitz. For fiscal 2014, Mr. Mitz current base salary is $650,000 per year. Mr. Adair s current base salary is $1.00 per year, but we estimate would increase to $1,000,000 effective April 15, 2014 if proposal three is not approved.

Discretionary Cash Bonuses

Our annual discretionary cash bonus program for our officers and other employees is designed to reward performance that has furthered key corporate objectives, including financial objectives and those based on individual contributions to strategic initiatives.

We did not adopt a formal bonus plan for or during fiscal 2013 and do not expect to adopt any formal program for fiscal 2014. As a result, for fiscal 2013, our bonus program consisted of discretionary bonuses as determined by our compensation committee. In October 2013, as part of its annual review of executive compensation, our compensation committee met to consider cash bonus awards for our named executive officers.

We believe the use of a discretionary bonus program provides our compensation committee with the flexibility needed to address pay-for-performance as well as recruiting and retention goals. The amount of a discretionary bonus, if any, to be awarded to an executive officer is based on our compensation committee s review of individual and corporate performance and the recommendations of our chief executive officer.

In determining fiscal 2013 cash bonus awards for our named executive officers (other than Mr. Adair), our compensation committee considered individual contributions to corporate financial and business performance during fiscal 2013, including our operating results, expense management initiatives, the recently completed acquisition of QCSA and corporate business development projects. For the benefit of the committee, Mr. Adair reviewed each individual officer s performance relative to the categories, with specific discussion of how individual functional areas contributed to the larger corporate strategic objectives. Mr. Mitz s performance was principally evaluated by our compensation committee with respect to objectives relating to development of our strategic goals and performance objectives for our executive officers as well as his role in reducing expenses and developing the Company s programs to increase revenues across all areas of our business. Mr. Franklin s performance was principally evaluated with respect to objectives relating to the development of associates in our corporate finance function, financial reporting to the board and audit committee, and expense management. Mr. Vannuccini s performance was principally evaluated with respect to revenue growth. Mr. Lowy s performance was evaluated largely with respect to factors relating to facility condition, management of new accounts, and cost control at our facility level and per car detail, as well as his ability to reduce expenses of our field operations and administer and manage the field operations budget. The compensation committee determined that the increase in bonus amounts from fiscal 2012 to fiscal 2013 were appropriate in light of recommendations made by the chief executive officer with respect to reviews of the individual performance of each named executive officer, increased responsibilities of each named executive officer with respect to international operations and unit volume in North America and the lack of equity grants for fiscal 2013.

Based on its review of these factors with our chief executive officer the compensation committee approved the following cash bonuses for our named executive officers:

Named Executive Officer	**Fiscal Year 2013 Cash Bonus Amount**
A. Jayson Adair	
Vincent W. Mitz	$600,000
William E. Franklin	$349,422
Russell D. Lowy	$314,603
Robert H. Vannuccini	$268,583

Equity-Based Incentives

We grant equity-based incentives to certain employees, including our executive officers, in order to foster a corporate culture that aligns employee interests with stockholder interests. Our equity incentive plans have provided the principal method for our executive officers to acquire an equity position in our company. Following approval by the stockholders of the option grant to Mr. Adair, our compensation committee deemed him ineligible to be awarded any additional equity compensation for the five year period ending on April 14, 2014.

While we have not adopted any specific stock ownership guidelines for our executive officers or directors, our executive officers and directors do own a substantial portion of our common stock. As part of our insider trading policy we prohibit any member of the board of directors, officer, employee, consultant or other person associated with us from trading in any interest or position relating to the future price of our securities, such as a put, call or short sale, or using our stock as collateral for margin loans.

Only our compensation committee is authorized to grant awards to our executive officers under our equity incentive plans. With respect to executive officers, our practice has been to grant options to executive officers on an annual basis as part of the annual review process immediately after the end of each fiscal year, although we have not always granted annual option awards to our executive officers. Generally, in making its determination concerning additional option grants, our compensation committee considers individual performance, competitive factors, the individual s current level of compensation and equity participation, and the recommendations of our chairman and chief executive officer.

To date, our equity incentive awards to executive officers have been granted primarily with time-based vesting. Our option grants typically vest over a five-year period with 20% of the shares vesting on the one-year anniversary of the date of grant and the remaining shares vesting in equal monthly installments over the remaining four years. Although our practice in recent years has been to provide equity incentives to executives in the form of stock option grants that vest over time, our compensation committee may in the future consider alternative forms of equity grants, such as performance shares, restricted stock units, restricted stock awards or other forms of equity grants as allowed under our 2007 Equity Incentive Plan, with vesting of awards based on the achievement of performance milestones or financial metrics.

Generally, our compensation committee considers, and, if it determines appropriate, approves option grants for our executive officers following the end of each fiscal year. Our compensation committee determines the size of these grants based on a number of subjective factors, including the individual executive officer s contribution to our performance in the prior fiscal year, and less subjective factors such as the relative vested versus unvested equity position of the individual executive.

In October 2013, as part of its annual review of executive compensation, our compensation committee met and discussed the potential grant of stock options to our named executive officers. Although the committee took no action, the committee plans to meet in the future to discuss the potential grant of stock options to our named executive officers, which have traditionally been made on a bi-annual basis. The last grants to our named executive officers were made in March 2011.

Benefits and Perquisites

We provide the following benefits to our named executive officers, including Mr. Adair, generally on the same basis provided to our other employees: health, dental and vision insurance, medical and dependent care flexible spending account, short- and long-term disability insurance, accidental death and dismemberment insurance, and a 401(k) plan. We match employee contributions to the 401(k) plan at a rate of 20% of the first 15% of earnings per employee, up to a maximum of $3,500 for fiscal 2013.

We provide Messrs. Johnson, Adair and Mitz with company-owned automobiles that may be used for personal purposes and Mr. Franklin, Mr. Lowy, and Mr. Vannuccini with a monthly automobile expense allowance.

Please see the column entitled All Other Compensation in the summary compensation table set forth in this proxy statement for the amounts attributable to each named executive officer with respect to benefits and perquisites.

Other Considerations:

Post-Employment Obligations

Each of our executives is an at will employee, and we are not party to written employment agreements with our named executive officers, other than with Mr. Franklin, our chief financial officer, whose agreement provides, under certain circumstances, for certain payments upon involuntary termination of employment or resignation for good reason (as defined in the agreement). In addition, we have entered into similar

agreements with Thomas Wylie, our senior vice president of human resources, Vincent Phillips, our senior vice president of information technology, and Matthew Burgener, our senior vice president of marketing. Our compensation committee believes the terms of these agreements are fair and reasonable and are in our best interests and in the best interests of our stockholders. For a description of the material terms of these agreements, please see Employment Contracts and

Severance Arrangements with Executive Officers in the section entitled Potential Post-Employment Payments Upon Termination or Change in Control included in this proxy statement.

Tax Deductibility of Compensation

Section 162(m) of the Code limits the tax deductibility of non-performance based compensation paid to our chief executive officer and to each of our three most highly compensated officers (other than our chief executive officer and chief financial officer) to $1 million per person per year, unless certain exemption requirements are satisfied. Exemptions to this deductibility limit may be made for various forms of performance-based compensation that are approved by our stockholders. As described in Proposal 2 described above, we are seeking re-approval of the material terms of the 2007 Plan to allow us the ability to grant awards that qualify as a performance-based compensation under Section 162(m) and preserve our ability to take a tax deduction for compensation recognized in connection with awards granted under these plans in excess of $1 million per year. We may from time to time pay compensation or grant equity awards to our executive officers, however, that may not be deductible when, for example, we believe that such compensation is appropriate and in the best interests of our stockholders, after taking into consideration changing business conditions and/or the executive officer s performance. In addition, as described in Proposal 3, the stock option grants to Mr. Adair and Mr. Mitz are designed to qualify as performance-based compensation under Section 162(m). If approved by the stockholders, we will be able to take a tax deduction in excess of $1 million per year for any compensation recognized by Mr. Adair or Mr. Mitz in connection with these stock option grants.

Section 409A of the Internal Revenue Code

Section 409A imposes additional significant taxes in the event an executive officer, director or other service provider for the company receives deferred compensation that does not satisfy the requirements of section 409A. Although we do not maintain a traditional deferred compensation plan, section 409A may apply to certain severance arrangements and equity awards. Consequently, to assist the affected employee in avoiding additional tax and penalties under section 409A, we developed the severance arrangements described above in Post-Employment Obligations to either avoid the application of section 409A or, to the extent doing so is not possible, comply with the applicable section 409A requirements.

Equity Grant Practices

In June 2007, our compensation committee and board of directors adopted a policy with respect to the grant of stock options and other equity incentive awards. Among other provisions, the policy generally prohibits the grant of stock options or other equity awards to executive officers during closed quarterly trading windows (as determined in accordance with our insider trading policy). In addition, the equity grant policy requires that all equity awards made to executive officers be approved at meetings of our compensation committee rather than by written consent of the committee.

COMPENSATION COMMITTEE REPORT

The compensation committee has reviewed and discussed with management the Compensation Discussion and Analysis contained in this proxy statement immediately above. Based on this review and discussion, the compensation committee has recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into our Annual Report on Form 10-K for the fiscal year ended July 31, 2013.

COMPENSATION COMMITTEE
Daniel J. Englander (chairman)
Steven D. Cohan
Thomas N. Tryforos

The preceding compensation committee report shall not be deemed to be soliciting material or to be filed with the SEC or subject to Regulation 14A or 14C (17 CFR 240.14a-1 through 240.14b-2 or 240.14c-1 through 240.14c-101), other than as provided in Item 407(d) of Regulation S-K, or to the liabilities of section 18 of the Exchange Act (15 U.S.C. 78r), except to the extent we specifically request that the information be treated as soliciting material or specifically incorporate it by reference into a document filed under the Securities Act or the Exchange Act. Such information will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference.

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Fiscal Year 2013 Summary Compensation Table

The following table sets forth information regarding all of the compensation awarded to, earned by, or paid to (i) our chief executive officer, (ii) our chief financial officer, and (iii) the three most highly compensated executive officers other than our chief executive officer and chief financial officer serving as executive officers as of July 31, 2013, the end of our 2013 fiscal year. We refer to these officers as the named executive officers.

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)(1)	Option Awards ($)(2)	All Other Compensation ($)(3)	Total ($)
A. Jayson Adair	2013	1(4)			18,000(5)	18,001
Chief Executive Officer	2012	1(4)			10,800	10,801
	2011	1(4)			71,018	71,019
Vincent W. Mitz	2013	650,000	600,000		13,400(6)	1,263,400
President	2012	650,000	600,000		13,400	1,263,400
	2011	640,384	500,000	4,789,415	16,962	5,946,761
William E. Franklin	2013	325,000	349,422		12,500(7)	637,328
Senior Vice President and	2012	310,000	316,778		10,550	637,328
Chief Financial Officer	2011	308,076	319,385	1,387,286	9,300	2,024,047
Russell D. Lowy	2013	290,000	314,603		11,504(8)	563,956
Senior Vice President,	2012	275,000	280,540		8,416	563,956
Chief Operating Officer	2011	270,192	207,551	1,393,780	6,841	1,878,364
Robert H. Vannuccini	2013	275,000	268,583		9,000(9)	636,356
Senior Vice President,	2012	260,000	370,506		5,850	636,356
Sales	2011	253,269	211,962	1,684,378	172,581	2,322,190

(1) The amounts in this column represent discretionary bonuses awarded for services performed during the applicable fiscal year. Annual bonuses earned during a fiscal year are generally paid in the first quarter of the subsequent fiscal year.

(2) There were no equity awards granted to named executive officers in fiscal 2013. For the number of outstanding equity awards held by the named executive officers as of July 31, 2013, see the Outstanding Equity Awards table in this proxy statement. Each equity award listed in this column was granted under the 2007 Equity Incentive Plan and will become exercisable for the option shares in installments over the executive s period of service with us. Options vest over a five-year period from the date grant, with the first 20% vesting on the one-year anniversary of the date of grant and the remainder vesting monthly thereafter. Each option has a maximum term of 10 years, subject to earlier termination in the event of the executive s termination of employment with us.

(3) We pay 401(k) matching contributions, life and health insurance and short-term disability premiums on behalf of all of our employees, including our named executive officers. The amounts shown in this column, other than the amounts for personal use of corporate aircraft discussed below, equal the actual cost to us of the particular benefit or perquisite provided. Amounts in this column include the cost to us of a named executive officer s (i) personal use of a company-owned automobile or (ii) an automobile expense allowance.

(4) For the period beginning on April 14, 2009 and ending on April 14, 2014, Mr. Adair receives $1 per year in salary.

(5) Includes $18,000 related to personal use of company-owned automobiles.

(6) Includes $2,600 for 401(k) matching contribution paid by Copart on behalf of Mr. Mitz and $10,800 related to personal use of a company-owned automobile.

(7) Includes $3,500 for 401(k) matching contribution paid by Copart on behalf of Mr. Franklin and $9,000 related to an automobile allowance.

(8) Includes $2,504 for 401(k) matching contribution paid by Copart on behalf of Mr. Lowy and $9,000 related to an automobile allowance.

(9) Includes $9,000 related to an automobile allowance.

For a description of the components of our executive compensation program, including the process by which salaries and bonuses are determined, please see the section entitled Compensation Philosophy and Program Design in the Compensation Discussion and Analysis section of this proxy statement. For a description of our cash bonus program, please see the section entitled Discretionary Cash Bonuses in the Compensation Discussion and Analysis section of this proxy statement.

We are not a party to any written employment agreements with any of our named executive officers, except for an employment agreement we entered into with William E. Franklin, our senior vice president and chief financial officer, in fiscal 2004 which was subsequently amended in September 2008 to comply with section 409A of the Internal Revenue Code. For a description of the material terms of Mr. Franklin s agreement with us, please see the section entitled Employment Contracts and Severance Arrangements with Executive Officers contained in this proxy statement.

Until our corporate aircraft were sold on April 3, 2012 and July 25, 2012, respectively, we provided our chairman and our chief executive officer limited ability to use our corporate aircraft for personal purposes, subject to the standards and limitations described under the caption Compensation Discussion and Analysis Benefits and Perquisites, in this proxy statement. For purposes of the summary compensation table above, consistent with SEC guidelines, we have valued this perquisite based on the incremental cost to us. For purposes of valuing personal use of corporate aircraft, we have used a method that takes into account (i) landing/parking/flight planning services and expenses; (ii) crew travel expenses; (iii) supplies and catering; (iv) aircraft fuel and oil expenses; (v) maintenance, parts and external labor; (vi) customs, foreign permit and similar fees, if any; and (vii) passenger ground transportation. Incremental cost does not include an allocable share of the fixed costs associated with our ownership of the aircraft.

Outstanding Equity Awards at 2013 Fiscal Year End

The following table presents certain information concerning equity awards held by the named executive officers at the end of the fiscal year ended July 31, 2013. This table includes unexercised and unvested option awards. Each equity grant is shown separately for each named executive officer.

Named Executive Officer	Number of Securities	Number of Securities	Option Grant	Option Exercise	Option Expiration

	Underlying Unexercised Options (#) Exercisable	Underlying Unexercised Options (#) Unexercisable	Date (1)	Price ($)	Date
A. Jayson Adair	400,000		9/28/2007	17.195	9/28/2017
	192,772	7,228	9/26/2008	19.775	9/26/2018
	3,400,000	600,000	4/14/2009	15.105	4/14/2019
Vincent W. Mitz	200,000		9/28/2007	17.195	9/28/2017
	76,772	3,228	9/26/2008	19.775	9/26/2018
	115,000	35,000	9/25/2009	16.43	9/25/2019
	133,333	66,667	3/4/2010	17.32	3/4/2020
	110,000	90,000	10/4/2010	16.38	10/4/2020
	233,333	266,667	3/4/2011	20.56	3/4/2021
William E. Franklin	100,000		9/28/2007	17.195	9/28/2017
	76,161	23,839	9/25/2009	16.43	9/25/2019
	22,000	18,000	10/4/2010	16.38	10/4/2020
	44,000	36,000	10/15/2010	17.11	10/15/2020
	56,000	64,000	3/4/2011	20.56	3/4/2021
Russell D. Lowy	16,378	20,289	9/25/2009	16.43	9/25/2019
	5,334	18,000	10/4/2010	16.38	10/4/2020
	21,334	85,334	3/4/2011	20.56	3/4/2021
Robert H. Vannuccini	38,105	1,895	9/26/2008	19.775	9/26/2018
	82,753	17,247	9/25/2009	16.43	9/25/2019
	22,000	18000	10/4/2010	16.38	10/4/2020
	93,333	106,667	3/4/2011	20.56	3/4/2021

(1) All option grants vest 20% on the one-year anniversary of the grant date and 1.67% each month thereafter, subject to the executive officer s continued service to us on each such vesting date.

Option Exercises in Fiscal Year 2013

The following table provides certain information concerning stock option exercises by each of the named executive officers during the fiscal year ended July 31, 2013, including the number of shares acquired upon exercise and the value realized, before payment of any applicable withholding tax and broker s commissions.

	Option Awards	
Named Executive Officer	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)(1)
A. Jayson Adair		
Vincent W. Mitz		
William E. Franklin	90,220	1,713,944
Russell D. Lowy	496,917	8,197,693

	Option Awards	
Robert H. Vannuccini	100,000	1,225,500

(1) Represents the fair market value of underlying securities on the date of exercise, less the exercise price.

Pension Benefits

We did not maintain any defined pension or defined contribution plans, other than our tax-qualified 401(k) plan, during our fiscal year ended July 31, 2013.

Potential Post-Employment Payments upon Termination or Change in Control

Employment Contracts and Severance Arrangements with Executive Officers

We are not a party to any written employment agreements with any of our named executive officers, except for an employment agreement we entered into in fiscal 2004 with William E. Franklin, our senior vice president and chief financial officer. We entered into employment agreements with Thomas Wylie, our senior vice president of human resources, Vincent Phillips, our senior vice president of information technology, and Matthew Burgener, our senior vice president of marketing, in fiscal years 2003, 2010, and 2011, respectively. None of these executives is a named executive officer. Each employment agreement sets forth the base salary, bonus opportunity, benefits and the responsibilities of each position in effect at the time of execution of the agreement. In addition, each agreement requires us to provide compensation to these officers in the event of termination of employment under certain circumstances. The employment agreements with Messrs. Franklin and Wylie were subsequently amended in September 2008 in order to comply with section 409A of the Internal Revenue Code.

Each employment agreement with Messrs. Franklin, Wylie, Phillips, and Burgener provides that in the event the executive s employment is involuntarily terminated without cause or the executive resigns from his employment for good reason, such executive officer will be entitled to payment of 12 months of his then-current base salary payable after the date of termination according to a schedule that complies with section 409A of the Internal Revenue Code. Each employment agreement also provides that in the event the executive officer s employment is terminated for any reason other than as previously described, including by reason of death or disability or cause, then the executive shall be entitled to receive severance benefits as provided under our then-existing severance and benefit plans and policies at the time of termination.

In each employment agreement described above, cause means any of the following: (i) willful or grossly negligent failure to substantially perform his duties; (ii) commission of gross misconduct which is injurious to us; (iii) breach of a material provision of the employment agreement or agreements incorporated therein; (iv) material violation of a federal or state law or regulation applicable to our business; (v) misappropriation or embezzlement of Company funds or an act of fraud or dishonesty upon us made by the executive; (vi) conviction of, or plea of *nolo contendere* to, a felony; or (vii) continued failure to comply with directives of senior management.

In each employment agreement described above, good reason means the executive s resignation, if one or more of the following events shall have occurred (unless such event(s) applies generally to all of our senior management): without the executive s prior written consent, (i) the assignment to the executive of any duties or the reduction of the executive s duties, either of which results in a material diminution in the executive s position or responsibilities in effect immediately prior to such assignment, or the removal of the executive from such position and responsibilities; (ii) a material reduction by us in his base salary as in effect immediately prior to such reduction; or (iii) any material breach by us of any material provision of the employment agreement.

Change in Control Provisions

The employment agreements entered into with Messrs. Franklin, Wylie, Phillips and Burgener do not provide for severance payments or acceleration of vesting of equity awards in the event of a change in control. Neither our 2001 Stock Option Plan nor our 2007 Equity Incentive Plan provide for the acceleration of outstanding options or other equity incentive awards in the event of a change in control (as defined in the plans), except in the limited circumstance where the successor corporation does not assume our outstanding options. When a successor

corporation does not assume our options in the event of an acquisition or merger, the optionee will have the right to exercise the option or stock purchase right as to all the shares underlying the applicable options, including shares not otherwise vested or exercisable. The right to exercise the option or stock purchase right applies to all of our employees, including our named executive officers.

In the event of a change in control (as defined in the plans), if the awards to be granted are not assumed by the successor corporation, our compensation committee has the authority as administrator of the equity plan to accelerate the vesting of the awards.

Potential Payments upon Termination or Change in Control

None of our executive officers has an employment or other severance agreement that provides for payment of any amount in connection with termination of employment upon a change in control of the company, other than those payments otherwise due to Messrs. Franklin, Wylie, Phillips, and Burgener upon an involuntary termination or resignation for good reason (as defined in the agreements described above). Please see the section above entitled Employment Contracts and Severance Agreements with Executive Officers above for detailed descriptions of the agreements with named executive officers that govern post-employment payments and benefits. No payments are due in the event of voluntary termination of employment or termination of employment as a result of death or disability or for cause (as defined in the agreements described above).

Assuming the involuntary termination of employment (including resignation for good reason) of the named executive officers took place on July 31, 2013, no named executive officer would be entitled to receive severance payments and benefits, except Mr. Franklin who would be eligible to receive payments totaling $325,000, the equivalent of twelve months of his fiscal 2013 base salary.

Equity Compensation Plan Information

The following table provides information as of July 31, 2013 with respect to shares of our common stock that may be issued upon the exercise of options and similar rights under all of our existing equity compensation plans, including our 2007 Equity Incentive Plan, our 2001 Stock Option Plan, our 1994 Employee Stock Purchase Plan, the Copart, Inc. stand alone stock option award agreement dated April 14, 2009 (as amended on June 9, 2010) between Copart, Inc. and Willis J. Johnson (the Johnson Option Agreement), and the Copart, Inc. stand alone stock option award agreement dated April 14, 2009 (as amended on June 9, 2010) between Copart, Inc. and A. Jayson Adair (the Adair Option Agreement). Our 2001 Stock Option Plan was terminated in 2007; our 1992 Stock Option Plan was terminated in 2001; and our 1994 Director Option Plan was terminated in August 2003. No additional grants will be made under these plans and no options remain outstanding under our 1992 Stock Option Plan or our 1994 Director Option Plan, but options granted prior to the termination of our 2001 Stock Option Plan remain outstanding and are subject to the terms of the applicable plan.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights(1)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(1)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	14,922,298(2)	$ 16.76(3)	2,924,979(4)
Equity compensation plans not approved by security holders			
Total	14,922,298	$ 16.76	2,924,979

(1) We are unable to ascertain with specificity the number of securities to be issued upon exercise of outstanding rights under the 1994 Employee Stock Purchase Plan or the weighted average exercise price of outstanding rights under that plan. The 1994 Employee Stock Purchase Plan provides that shares of our common stock may be purchased at a per share price equal to 85% of the fair market value of the common stock on the beginning of the offering period or a purchase date applicable to such offering period, whichever is lower.

(2) Reflects the number of shares of common stock to be issued upon exercise of outstanding options under the 2001 Stock Option Plan, the 2007 Equity Incentive Plan, the Johnson Option Agreement, and the Adair Option Agreement.

(3) Reflects weighted average exercise price of outstanding options under the 2001 Stock Option Plan, the 2007 Equity Incentive Plan, the Johnson Option Agreement, and the Adair Option Agreement.

(4) Includes securities available for future issuance under the 1994 Employee Stock Purchase Plan and the 2007 Equity Incentive Plan. No securities are available for future issuance under the 2001 Stock Option Plan, 1992 Stock Option Plan and 1994 Director Option Plan.

RELATED PERSON TRANSACTIONS

Audit Committee Approval Policy

Our audit committee is responsible for the review, approval, or ratification of related person transactions between us and related persons. Under SEC rules, a related person is any person who is or was since the beginning of the last fiscal year a director, officer, nominee for director, or 5% stockholder of Copart (and any of his or her immediate family members).

In October 2012, our audit committee adopted a revised written policy with respect to related person transactions. Under the policy, any request for us to enter into a transaction with an executive officer, director, principal stockholder, or any of their immediate family members or affiliates, in which the amount involved exceeds $120,000 must first be presented to our audit committee for review, consideration, and approval. In approving or rejecting any such proposal, our audit committee is to consider the relevant facts and circumstances available and deemed relevant to the audit committee, including, but not limited to, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the related party s interest in the transaction.

2013 Related Person Transactions

During fiscal 2013, we engaged in the related person transactions described in this section, all of which were approved by our audit committee. We believe that the terms of these transactions were no less favorable to us than could have been obtained from unaffiliated third parties.

Related Party Employment

We employ Brett Adair, the brother of A. Jayson Adair, our chief executive officer, in a non-executive position. In fiscal 2013, we paid Mr. Adair a total of $236,105.79, consisting of $186,105.79 in base salary and $50,000 as a cash bonus. In addition, Mr. Adair is given a monthly automobile expense allowance. In October 2012, our compensation committee approved a grant to Mr. Adair of 10,000 shares of our common stock at an exercise price per share of $27.39 and a cash bonus for fiscal 2012 in the amount of $50,000, which was paid to Mr. Adair in fiscal 2013.

In October 2013, our compensation committee approved a cash bonus for fiscal 2013 in the amount of $100,000, which was paid to Mr. Adair in fiscal 2014.

Stock Repurchases

Since February 2003, we have maintained a stock repurchase program approved by our board of directors. As of October 28, 2013, the aggregate authorization under the program stood at 98.0 million shares, and we had repurchased approximately 50.3 million shares, leaving approximately 47.7 million shares available for repurchase.

From time to time during the course of our repurchase program, we have repurchased stock directly from our executive officers on terms approved by our audit committee. During fiscal 2012, we purchased, as part of our on-going repurchase program, shares from certain executive officers described below:

On June 28, 2012, we acquired 2.8 million shares of our common stock at a price of $23.22 per share, or an aggregate purchase price of $65.0 million, from Willis J. Johnson, our chairman and a member of our board of directors. The settlement date for the acquisition of the common stock was on or about June 28, 2012, and the purchase was made pursuant to our existing stock repurchase program. The per share purchase price for the common stock to be acquired was based on the closing price of the Company s common stock on June 28, 2012 (as reported by the NASDAQ). The repurchase was approved by the independent members of our board of directors and our audit committee.

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On September 27, 2012, we acquired 500,000 shares of our common stock at a price per share of $27.77 per share, or an aggregate purchase price of $13.9 million, from Thomas W. Smith, a former member of our board of directors. The settlement date for the acquisition of the common stock was on or about September 27, 2012, and the purchase was made pursuant to our existing stock repurchase program. The per share purchase price for the common stock to be acquired was based on the closing price of our common stock on September 27, 2012 (as reported by the NASDAQ). The repurchase was approved by the independent members of our board of directors and our audit committee.

Change in Control Agreements

We have entered into agreements providing termination benefits to certain of our executive officers as described in the section entitled Potential Post-Employment Payments Upon Termination or Change of Control above.

Indemnification Agreements

We have entered into indemnification agreements with our directors and executive officers. The indemnification agreements and our certificate of incorporation and bylaws require us to indemnify our directors and executive officers to the fullest extent permitted by Delaware law.

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and officers and persons who beneficially own more than ten percent of a registered class of our equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and our other equity securities. Officers, directors and greater-than-ten percent stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file.

To our knowledge, based solely upon review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended July 31, 2013, all Section 16(a) filing requirements applicable to our officers, directors and holders of more than ten percent of our common stock were satisfied.

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SECURITY OWNERSHIP

The following table sets forth certain information known to us regarding the ownership of our common stock as of October 28, 2013 by (i) all persons known by us to be beneficial owners of five percent or more of our common stock; (ii) each of our current directors and nominees for director; (iii) any other named executive officers (as defined in the section of this Proxy Statement entitled Executive Compensation Summary

Compensation Table); and (iv) all of our executive officers and directors as a group. Beneficial ownership is determined based on SEC rules and includes certain stock options exercisable within 60 days of October 28, 2013. Unless otherwise indicated, each of the stockholders has sole voting and investment power with respect to the shares beneficially owned, subject to community property laws where applicable.

Name and Address of Beneficial Owner(1)	Number of Shares Beneficially Owned	Percent of Total Shares Outstanding(2)
Named executive officers and directors:		
Willis J. Johnson (3)	15,551,846	12.0%
A. Jayson Adair (4)	6,055,396	4.7%
Robert H. Vannuccini (5)	279,782	*
Daniel J. Englander (6)	434,683	*
Vincent W. Mitz (7)	994,185	*
Steven D. Cohan (8)	223,345	*
James E. Meeks (9)	320,833	*
William E. Franklin (10)	356,031	*
Matt Blunt (11)	33,333	*
Russell D. Lowy (12)	85,775	*
Thomas N. Tryforos (13)	284,677	*
All directors and executive officers as a group (18 persons) (14)	25,494,040	18.5%

* Represents less than 1% of our outstanding common stock.

(1) Unless otherwise set forth, the mailing address for each of the persons listed in this table is: c/o Copart, Inc., 14185 Dallas Parkway, Suite 300, Dallas, Texas 75254.

(2) Based on 125,547,268 shares outstanding as of October 28, 2013.

(3) Includes 7,395,645 shares held by the Willis J. Johnson and Reba J. Johnson Revocable Trust DTD 1/16/1997, for which Mr. Johnson and his wife are trustees and 3,689,534 shares held by the Reba Family Limited Partnership II, for which Mr. Johnson and his wife are the general partners. Also includes options to acquire 4,466,667 shares of common stock held by Mr. Johnson that are exercisable within 60 days after October 28, 2013.

(4) Includes 1,014,033 shares held by the A. Jayson Adair and Tammi L. Adair Revocable Trust, for which Mr. Adair and his wife are trustees, 24,696 shares held by irrevocable trusts for the benefit of members of Mr. Adair s immediate family and 550,000 shares held by JTGJ Investments, LP, a Texas limited partnership. Mr. Adair disclaims beneficial ownership of the shares held by JTGJ Investments, LP, except to the extent of his pecuniary interest. Also includes options to acquire 4,466,667 shares of common stock held by Mr. Adair that are exercisable within 60 days after October 28, 2013.

(5) Includes 2,072 shares held directly, and options to acquire 277,710 shares of common stock held by Mr. Vannuccini that are exercisable within 60 days after October 28, 2013.

(6) Includes 199,900 held by Ursula Capital Partners, for which Mr. Englander is the sole general partner, 2,450 shares held by trusts for the benefit of members of Mr. Englander s immediately family and 9,000 shares held directly by Mr. Englander. Mr. Englander disclaims beneficial ownership of the shares held by Ursula Capital Partners except to the extent of his pecuniary interest therein. Also includes options to acquire 223,333 shares of common stock held by Mr. Englander that are exercisable within 60 days after October 28, 2013.

(7)

Includes 692 shares held directly and options to acquire 993,493 shares of common stock held by Mr. Mitz that are exercisable within 60 days after October 28, 2013.

(8) Includes 12 shares owned directly and options to acquire 223,333 shares of common stock held by Mr. Cohan that are exercisable within 60 days after October 28, 2013.

(9) Includes options to acquire 320,833 shares of common stock held by Mr. Meeks that are exercisable within 60 days after October 28, 2013.

(10) Includes 11,657 shares held directly and options to acquire 344,374 shares of common stock held by Mr. Franklin that are exercisable within 60 days after October 28, 2013.

(11) Includes options to acquire 33,333 shares of common stock held by Mr. Blunt that are exercisable within 60 days after October 28, 2013.

(12) Includes options to acquire 85,775 shares of common stock held by Mr. Lowy that are exercisable within 60 days after October 28, 2013.

(13) Includes 251,344 shares held by Elias Charles & Co. LLC, of which Mr. Tryforos is a member. Mr. Tryforos disclaims beneficial ownership of the shares held by Elias Charles & Co. LLC except to the extent of his pecuniary interest. Also includes options to acquire 33,333 shares of common stock held by Mr. Tryforos that are exercisable within 60 days after October 28, 2013.

(14) Includes 13,318,321 shares and options to acquire 12,175,719 shares of common stock held by all executive officers and directors as a group that are exercisable within 60 days after October 28, 2013.

OTHER MATTERS

Other Matters

We know of no other matters to be submitted at the annual meeting. If any other matters properly come before the meeting, it is the intention of the persons named in the form of proxy to vote the shares they represent as our board of directors may recommend. Discretionary authority with respect to such other matters is granted by the execution of the proxy.

Adjournment of the 2013 Annual Meeting

In the event that there are not sufficient votes to approve any proposal incorporated in this proxy statement at the time of the annual meeting, the annual meeting may be adjourned in order to permit further solicitation of proxies from holders of our common stock. Proxies that are being solicited by our board of directors grant discretionary authority to vote for any adjournment, if necessary.

Annual Report

A copy of our Annual Report for the fiscal year ended July 31, 2013 has been mailed concurrently with this proxy statement to all stockholders entitled to notice of, and to vote at, the annual meeting. The annual report is not incorporated into this proxy statement and is not proxy soliciting material.

For the Board of Directors
COPART, INC.

Paul A. Styer,
Secretary

Dated: November 15, 2013

IMPORTANT NOTICE REGARDING INTERNET AVAILABILITY OF PROXY MATERIALS FOR THE 2013 ANNUAL MEETING:

The Proxy Statement and 2013 Annual Report are available free of charge at http://materials.proxyvote.com/217204.

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Site of the Copart, Inc. 2013 Annual Stockholder Meeting

Directions to:	Copart, Inc. Dallas Corporate Office 14185 Dallas Parkway, Suite 300 Dallas, Texas 75254
From:	Dallas Fort Worth International Airport
	Head towards the north exit Take the ramp onto International Parkway (partial toll road) Continue onto TX-121 N Take the exit onto I-635 E Take exit 22C to merge onto Dallas North Tollway N (partial toll road) Take the exit toward Spring Valley Rd/Quorum Dr/Verde Valley Lane (toll road) Merge onto Dallas Parkway Turn left onto Spring Valley Road Turn left onto Dallas Parkway Destination will be on the right

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APPENDIX A

COPART, INC.
2007 EQUITY INCENTIVE PLAN,
AS AMENDED AND RESTATED

1. *Purposes of the Plan*. The purposes of this Plan are:

to attract and retain the best available personnel for positions of substantial responsibility,

to provide incentives to individuals who perform services to the Company, and

to promote the success of the Company s business.

The Plan permits the grant of Incentive Stock Options, Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units, Performance Shares and other stock or cash awards as the Administrator may determine.

2. *Definitions*. As used herein, the following definitions will apply:

(a) *Administrator* means the Board or any of its Committees as will be administering the Plan, in accordance with Section 4 of the Plan.

(b) *Applicable Laws* means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

(c) *Award* means, individually or collectively, a grant under the Plan of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units, Performance Shares and other stock or cash awards as the Administrator may determine.

(d) *Award Agreement* means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.

(e) *Board* means the Board of Directors of the Company.

(f) *Change in Control* means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group, (Person) acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than 50% of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection (i), the acquisition of additional stock by any one Person, who is considered to own more than 50% of the total voting power of the stock of the Company will not be considered a Change in Control; or

(ii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause (ii), if any Person is considered to effectively control the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company s assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of the Company s assets: (A) a transfer to an entity that is controlled by the Company s stockholders immediately after the transfer, or (B) a transfer of assets

by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company s stock, (2) an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, 50% or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (iii)(B)(3). For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this Section 2(f), persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

(g) *Code* means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein will be a reference to any successor or amended section of the Code.

(h) *Committee* means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 4 hereof.

(i) *Common Stock* means the common stock of the Company.

(j) *Company* means Copart, Inc., a Delaware corporation, or any successor thereto.

(k) *Consultant* means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.

(l) *Determination Date* means the latest possible date that will not jeopardize the qualification of an Award granted under the Plan as performance-based compensation under Section 162(m) of the Code.

(m) *Director* means a member of the Board.

(n) *Disability* means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

(o) *Earnings Per Share* means as to any performance period, the Company s or a business unit s Profit After-Tax, divided by a weighted average number of Shares outstanding and dilutive common equivalent Shares deemed outstanding, determined in accordance with generally accepted accounting principles.

(p) *Employee* means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director s fee by the Company will be sufficient to constitute employment by the Company.

(q) *Exchange Act* means the Securities Exchange Act of 1934, as amended.

(r) *Exchange Program* means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for Awards of the same type (which may have lower exercise prices and different terms), Awards of a different type, and/or cash, (ii) Participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator, and/or (iii) the exercise price of an outstanding Award is reduced. The Administrator will determine the terms and conditions of any Exchange Program in its sole discretion.

(s) *Fair Market Value* means, as of any date, the value of the Common Stock as the Administrator may determine in good faith by reference to the price of such stock on any established stock exchange or a national market system on the day of determination if the Common Stock is so listed on any established stock exchange or a national market system. If the Common Stock is not listed on any established stock exchange or a national market system, the value of the Common Stock will be determined as the Administrator may determine in good faith.

(t) *Fiscal Year* means the fiscal year of the Company.

(u) *Incentive Stock Option* means an Option that by its terms qualifies and is otherwise intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(v) *Non-Employee Director* means a Director who is not an Employee.

(w) *Nonstatutory Stock Option* means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(x) *Officer* means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(y) *Operating Cash Flow* means as to any performance period, the Company s or a business unit s sum of Profit After-Tax plus depreciation and amortization less capital expenditures plus changes in working capital comprised of accounts receivable, inventories, other current assets, trade accounts payable, accrued expenses, product warranty, advance payments from customers and long-term accrued expenses, determined in accordance with generally acceptable accounting principles.

(z) *Operating Income* means as to any performance period, the Company s or a business unit s income from operations but excluding any unusual items, determined in accordance with generally accepted accounting principles.

(aa) *Option* means a stock option granted pursuant to Section 6 of the Plan.

(bb) *Parent* means a parent corporation, whether now or hereafter existing, as defined in Section 424(e) of the Code.

(cc) *Participant* means the holder of an outstanding Award.

(dd) *Performance Goals* will have the meaning set forth in Section 11 of the Plan.

(ee) *Performance Period* means any Fiscal Year of the Company or such other period as determined by the Administrator in its sole discretion.

(ff) *Performance Share* means an Award denominated in Shares which may be earned in whole or in part upon attainment of Performance Goals or other vesting criteria as the Administrator may determine pursuant to Section 10.

(gg) *Performance Unit* means an Award which may be earned in whole or in part upon attainment of Performance Goals or other vesting criteria as the Administrator may determine and which may be settled for cash, Shares or other securities or a combination of the foregoing pursuant to Section 10.

(hh) *Period of Restriction* means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Administrator.

(ii) *Plan* means this 2007 Equity Incentive Plan, as amended and restated.

(jj) *Profit After-Tax* means as to any performance period, the Company s or a business unit s income after taxes, determined in accordance with generally accepted accounting principles.

(kk) *Profit Before-Tax* means as to any performance period, the Company s or a business unit s income before taxes, determined in accordance with generally accepted accounting principles.

(ll) *Restricted Stock* means Shares issued pursuant to an Award of Restricted Stock under Section 8 of the Plan, or issued pursuant to the early exercise of an Option.

(mm) *Restricted Stock Unit* means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 9. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.

(nn) *Return on Assets* means as to any performance period, the percentage equal to the Company s or a business unit s Operating Income before incentive compensation, divided by average net Company or business unit, as applicable, assets, determined in accordance with generally accepted accounting principles.

(oo) *Return on Equity* means as to any performance period, the percentage equal to the Company s Profit After-Tax divided by average stockholder s equity, determined in accordance with generally accepted accounting principles.

(pp) *Return on Sales* means as to any performance period, the percentage equal to the Company s or a business unit s Operating Income before incentive compensation, divided by the Company s or the business unit s, as applicable, Revenue, determined in accordance with generally accepted accounting principles.

(qq) *Revenue* means as to any performance period, the Company s or business unit s net sales, determined in accordance with generally accepted accounting principles.

(rr) *Rule 16b-3* means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(ss) *Section 16(b)* means Section 16(b) of the Exchange Act.

(tt) *Service Provider* means an Employee, Director, or Consultant.

(uu) *Share* means a share of the Common Stock, as adjusted in accordance with Section 14 of the Plan.

(vv) *Stock Appreciation Right* means an Award, granted alone or in connection with an Option, that pursuant to Section 7 is designated as a Stock Appreciation Right.

(ww) *Subsidiary* means a subsidiary corporation, whether now or hereafter existing, as defined in Section 424(f) of the Code.

(xx) *Total Stockholder Return* means as to any performance period, the total return (change in share price plus reinvestment of any dividends) of a Share.

3. *Stock Subject to the Plan.*

(a) Subject to the provisions of Section 14 of the Plan, the maximum aggregate number of Shares that may be awarded and sold under the Plan is 12,000,000 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

(b) *Full Value Awards*. Any Shares subject to Awards granted with an exercise price less than the Fair Market Value on the date of grant of such Awards will be counted against the numerical limits of this Section 3 as two (2) Shares for every one (1) Share subject thereto. Further, if Shares acquired pursuant to any such Award are forfeited or repurchased by the Company and would otherwise return to the Plan pursuant to Section 3(c), two (2) times the number of Shares so forfeited or repurchased will return to the Plan and will again become available for issuance.

(c) *Lapsed Awards*. If an Award expires or becomes unexercisable without having been exercised in full, or, with respect to Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units, is forfeited to or repurchased by the Company, the unpurchased Shares (or for Awards other than Options and Stock Appreciation Rights, the forfeited or repurchased Shares) which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). Upon exercise of a Stock Appreciation Right settled in Shares, the gross number of Shares covered by the portion of the Award so exercised will cease to be available under the Plan. Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if unvested Shares of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units are repurchased by the Company or are forfeited to the Company, such Shares will become available for future grant under the Plan. Shares used to pay the tax and/or exercise price of an Award will not become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. Notwithstanding the foregoing

provisions of this Section 3(c), subject to adjustment provided in Section 14, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code, any Shares that become available for issuance under the Plan under this Section 3(c).

(d) *Share Reserve*. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

4. *Administration of the Plan.*

(a) *Procedure.*

(i) *Multiple Administrative Bodies*. Different Committees with respect to different groups of Service Providers may administer the Plan.

(ii) *Section 162(m)*. To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as performance-based compensation within the meaning of Section 162(m) of the Code, the Plan will be administered by a Committee of two (2) or more outside directors within the meaning of Section 162(m) of the Code.

(iii) *Rule 16b-3*. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) *Other Administration*. Other than as provided above, the Plan will be administered by (A) the Board or (B) a Committee, which committee will be constituted to satisfy Applicable Laws.

(b) *Powers of the Administrator*. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator will have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Awards may be granted hereunder;

(iii) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder;

(iv) to determine the terms and conditions of any, and with the approval of the Company s stockholders, to institute an Exchange Program;

(v) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(vi) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws;

(vii) to modify or amend each Award (subject to Section 19(c) of the Plan). Notwithstanding the previous sentence, the Administrator may not, without the approval of the Company s stockholders: (A) modify or amend an Option or Stock Appreciation Right to reduce the exercise price of such Option or Stock Appreciation Right after it has been granted (except for adjustments made pursuant to Section 14), or (B) cancel any outstanding Option or Stock Appreciation Right and immediately replace it with a new Option or Stock Appreciation Right with a lower exercise price;

(viii) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(ix) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award pursuant to such procedures as the Administrator may determine; and

(x) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) *Effect of Administrator s Decision*. The Administrator s decisions, determinations, and interpretations will be final and binding on all Participants and any other holders of Awards.

5. *Eligibility*. Nonstatutory Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Units, Performance Shares, and such other cash or stock awards as the Administrator determines may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

6. *Stock Options*.

(a) *Limitations*.

(i) Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds $100,000 (U.S.), such Options will be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options will be taken into account in the order in which they were granted. The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted.

(ii) The Administrator will have complete discretion to determine the number of Shares subject to an Option granted to any Participant, provided that during any Fiscal Year, no Participant will be granted an Option covering more than 1,000,000 Shares. Notwithstanding the

limitation in the previous sentence, in connection with his or her initial service as an Employee, an Employee may be granted Options covering up to an additional 1,000,000 Shares.

(b) *Term of Option*. The Administrator will determine the term of each Option in its sole discretion; provided, however, that the term will be no more than ten (10) years from the date of grant thereof. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than 10% of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option will be five (5) years from the date of grant or such shorter term as may be provided in the Award Agreement.

(c) *Option Exercise Price and Consideration*.

(i) *Exercise Price*. The per share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, but will be no less than 100% of the Fair Market Value per Share on the date of grant. In addition, in the case of an Incentive Stock Option granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than 10% of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no less than 110% of the Fair Market Value per Share on the date of grant. Notwithstanding the foregoing provisions of this Section 6(c), Options may be granted with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(ii) *Waiting Period and Exercise Dates*. At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised.

(iii) *Form of Consideration*. The Administrator will determine the acceptable form(s) of consideration for exercising an Option, including the method of payment, to the extent permitted by Applicable Laws.

(d) *Exercise of Option*.

(i) *Procedure for Exercise; Rights as a Stockholder*. Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

An Option will be deemed exercised when the Company receives: (i) notice of exercise (in such form as the Administrator specifies from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised (together with any applicable withholding taxes). No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 14 of the Plan.

(ii) *Termination of Relationship as a Service Provider*. If a Participant ceases to be a Service Provider, other than upon the Participant s termination as the result of the Participant s death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for three (3) months following the Participant s termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) *Disability of Participant*. If a Participant ceases to be a Service Provider as a result of the Participant s Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following the Participant s termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iv) *Death of Participant*. If a Participant dies while a Service Provider, the Option may be exercised following the Participant s death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the

option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant s designated beneficiary, provided such beneficiary has been designated prior to Participant s death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant s estate or by the person(s) to whom the Option is transferred pursuant to the Participant s will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following Participant s death. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(v) *Other Termination*. A Participant s Award Agreement may also provide that if the exercise of the Option following the termination of Participant s status as a Service Provider (other than upon the Participant s death or Disability) would result in liability under Section 16(b), then the Option will terminate on the earlier of (A) the expiration of the term of the Option set forth in the Award Agreement, or (B) the 10th day after the last date on which such exercise would result in such liability under Section 16(b). Finally, a Participant s Award Agreement may also provide that if the exercise of the Option following the termination of the Participant s status as a Service Provider (other than upon the Participant s death or Disability) would be prohibited at any time solely because the issuance of Shares would violate the registration requirements under the Securities Act, then the Option will terminate on the earlier of (A) the expiration of the term of the Option, or (B) the expiration of a period of three (3) months after the termination of the Participant s status as a Service Provider during which the exercise of the Option would not be in violation of such registration requirements.

7. *Stock Appreciation Rights*.

(a) *Grant of Stock Appreciation Rights*. Subject to the terms and conditions of the Plan, a Stock Appreciation Right may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion.

(b) *Number of Shares*. The Administrator will have complete discretion to determine the number of Stock Appreciation Rights granted to any Participant, provided that during any Fiscal Year, no Participant will be granted Stock Appreciation Rights covering more than 1,000,000 Shares. Notwithstanding the limitation in the previous sentence, in connection with his or her initial service as an Employee, an Employee may be granted Stock Appreciation Rights covering up to an additional 1,000,000 Shares.

(c) *Exercise Price and Other Terms*. The Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of Stock Appreciation Rights granted under the Plan, provided, however, that the exercise price will be not less than 100% of the Fair Market Value of a Share on the date of grant.

(d) *Stock Appreciation Right Agreement*. Each Stock Appreciation Right grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the Stock Appreciation Right, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(e) *Expiration of Stock Appreciation Rights*. A Stock Appreciation Right granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement; provided, however, that the term will be no more than ten (10) years from the date of grant thereof. Notwithstanding the foregoing, the rules of Section 6(d) also will apply to Stock Appreciation Rights.

(f) *Payment of Stock Appreciation Right Amount*. Upon exercise of a Stock Appreciation Right, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:

(i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times

(ii) The number of Shares with respect to which the Stock Appreciation Right is exercised.

At the discretion of the Administrator, the payment upon Stock Appreciation Right exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

8. *Restricted Stock*.

(a) *Grant of Restricted Stock*. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator, in its sole discretion, will determine.

(b) *Restricted Stock Agreement*. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Notwithstanding the foregoing sentence, for restricted stock intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code, during any Fiscal Year no Participant will receive more than an aggregate of 300,000 Shares of Restricted Stock. Notwithstanding the foregoing limitation, in connection with his or her initial service as an Employee, for restricted stock intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code, an Employee may be granted an aggregate of up to an additional 300,000 Shares of Restricted Stock. Unless the Administrator determines otherwise, Shares of Restricted Stock will be held by the Company as escrow agent until the restrictions on such Shares have lapsed.

(c) *Transferability*. Except as provided in this Section 8, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

(d) *Other Restrictions*. The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.

(e) *Removal of Restrictions*. Except as otherwise provided in this Section 8, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day of the Period of Restriction. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed.

(f) *Voting Rights*. During the Period of Restriction, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(g) *Dividends and Other Distributions*. During the Period of Restriction, Service Providers holding Shares of Restricted Stock will be entitled to receive all dividends and other distributions paid with respect to such Shares unless otherwise provided in the Award Agreement. If any such dividends or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

(h) *Return of Restricted Stock to Company*. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

(i) *Section 162(m) Performance Restrictions*. For purposes of qualifying grants of Restricted Stock as performance-based compensation under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals during the Performance Period. The Performance Goals will be set by the Administrator, in writing, on or before the Determination Date. In granting Restricted Stock which is intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goals). Notwithstanding anything herein, the Administrator may grant Awards under this Plan that are based on Performance Goals or other specific criteria or goals that are not intended to and do not otherwise qualify as performance-based compensation under Section 162(m) of the Code.

9. *Restricted Stock Units*.

(a) *Grant*. Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. Each Restricted Stock Unit grant will be evidenced by an Award Agreement that will specify such other terms and conditions as the Administrator, in its sole discretion, will determine, including all terms, conditions, and restrictions related to the grant, the number of Restricted Stock Units and the form of payout, which, subject to Section 9(d), may be left to the discretion of the Administrator. Notwithstanding anything to the contrary in this subsection (a), for Restricted Stock Units intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code, during any Fiscal Year of the Company, no Participant will receive more than an aggregate of 300,000 Restricted Stock Units. Notwithstanding the limitation in the previous sentence, for Restricted Stock Units intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code, in connection with his or her initial service as an Employee, an Employee may be granted an aggregate of up to an additional 300,000 Restricted Stock Units.

(b) *Vesting Criteria and Other Terms*. The Administrator will set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. After the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any restrictions for such Restricted Stock Units. Each Award of Restricted Stock Units will be evidenced by an Award Agreement that will specify the vesting criteria, and such other terms and conditions as the Administrator, in its sole discretion will determine.

(c) *Earning Restricted Stock Units*. Upon meeting the applicable vesting criteria, the Participant will be entitled to receive a payout as specified in the Award Agreement.

(d) *Form and Timing of Payment*. Payment of earned Restricted Stock Units will be made as soon as practicable after the date(s) set forth in the Award Agreement. The Administrator, in its sole discretion, may pay earned Restricted Stock Units in cash, Shares, or a combination thereof. Shares represented by Restricted Stock Units that are fully paid in cash again will be available for grant under the Plan.

(e) *Cancellation*. On the date set forth in the Award Agreement, all unearned Restricted Stock Units will be forfeited to the Company.

(f) *Section 162(m) Performance Restrictions*. For purposes of qualifying grants of Restricted Stock Units as performance-based compensation under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals during the Performance Period. The Performance Goals will be set by the Administrator, in writing, on or before the Determination Date. In granting Restricted Stock Units which are intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goals). Notwithstanding anything herein, the Administrator may grant Awards under this Plan that are based on Performance Goals or other specific criteria or goals that are not intended to and do not otherwise qualify as performance-based compensation under Section 162(m) of the Code.

10. *Performance Units and Performance Shares*.

(a) *Grant of Performance Units/Shares*. Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units/Shares granted to each Participant provided that during any Fiscal Year, for Performance Units or Performance Shares intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code, (i) no Participant will receive Performance Units having an initial value greater than $2,000,000, and (ii) no Participant will receive more than 300,000 Performance Shares. Notwithstanding the foregoing limitation, for Performance Shares intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code, in connection with his or her initial service, a Service Provider may be granted up to an additional 300,000 Performance Shares.

(b) *Value of Performance Units/Shares*. Each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant.

(c) *Performance Objectives and Other Terms*. The Administrator will set performance objectives or other vesting provisions. The Administrator may set vesting criteria based upon the achievement of Company-wide, business unit, or individual goals (including, but not limited to, continued employment), or any other basis determined by the Administrator in its discretion. Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine. The Administrator, in its sole discretion, may provide at the time of or following the date of grant for accelerated vesting for an Award of Performance Units/Shares.

(d) *Earning of Performance Units/Shares*. After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Unit/Share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit/Share.

(e) *Form and Timing of Payment of Performance Units/Shares*. Payment of earned Performance Units/Shares will be made as soon as practicable after the expiration of the applicable Performance Period. The Administrator, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

(f) *Cancellation of Performance Units/Shares*. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant under the Plan.

(g) *Section 162(m) Performance Restrictions*. For purposes of qualifying grants of Performance Units/Shares as performance-based compensation under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals during the Performance Period. The Performance Goals will be set by the Administrator, in writing, on or before the Determination Date. In granting Performance Units/Shares which are intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goals). Notwithstanding anything herein, the Administrator may grant Awards under this Plan that are based on Performance Goals or other specific criteria or goals that are not intended to and do not otherwise qualify as performance-based compensation under Section 162(m) of the Code.

11. *Performance-Based Compensation Under Section 162(m) of the Code*

(a) *General*. If the Administrator, in its discretion, decides to grant an Award intended to qualify as performance-based compensation under Section 162(m) of the Code, the provisions of this Section 11 will control over any contrary provision in the Plan; provided, however, that the Administrator may in its discretion grant Awards that are not intended to qualify as performance-based compensation under Section 162(m) of the Code to such Participants that are based on Performance Goals or other specific criteria or goals but that do not satisfy the requirements of this Section 11.

(b) *Performance Goals*. The granting and/or vesting of Awards of Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units and other incentives under the Plan may be made subject to the attainment of the following performance goals relating to one or more business criteria within the meaning of Section 162(m) of the Code and may provide for a targeted level or levels of achievement (Performance Goals): (a) Earnings per Share, (b) Operating Cash Flow, (c) Operating Income, (d) Profit After-Tax, (e) Profit Before-Tax, (f) Return on Assets, (g) Return on Equity, (h) Return on Sales, (i) Revenue, and (j) Total Stockholder Return. Any criteria used may be measured, as applicable, (i) in absolute terms, (ii) in combination with another Performance Goal or Goals (for example, but not by way of limitation, as a ratio or matrix), (iii) in relative terms (including, but not limited to, results for other periods, passage of time and/or against another company or companies or an index or indices), (iv) on a per-share basis, (v) against the performance of the Company as a whole or a segment of the Company and/or (vi) on a pre-tax or after-tax basis. The Performance Goals may differ from Participant to Participant and from Award to Award. Prior to the Determination Date, the Administrator will determine whether any significant element(s) will be included in or excluded from the calculation of any Performance Goal with respect to any Participant. In all other respects, Performance Goals will be calculated in accordance with the Company s financial statements, generally accepted accounting principles, or under a methodology established by the Administrator prior to the issuance of an Award, which is consistently applied and identified in the financial statements, including footnotes, or the management discussion and analysis section of the Company s annual report. In addition, the Administrator will adjust any performance criteria, Performance Goal or other feature of an Award that relates to or is wholly or partially based on the number of, or the value of, any stock of the Company, to reflect any stock dividend or split, repurchase, recapitalization, combination, or exchange of shares or other similar changes in such stock.

(c) *Procedures*. To the extent necessary to comply with the performance-based compensation provisions of Section 162(m) of the Code, with respect to any Award granted subject to Performance Goals and intended to qualify as performance-based compensation under Section 162(m) of the Code, within the first twenty-five percent (25%) of the Performance Period, but in no event more than ninety (90) days following the commencement of any Performance Period (or such other time as may be required or permitted by Section 162(m) of the Code), the Administrator will, in writing, (i) designate one or more Participants to whom an Award will be made, (ii) select the Performance Goals applicable to the Performance Period, (iii) establish the Performance Goals, and amounts of such Awards, as applicable, which may be earned for such Performance Period, and (iv) specify the relationship

between Performance Goals and the amounts of such Awards, as applicable, to be earned by each Participant for such Performance Period.

(d) *Additional Limitations*. Notwithstanding any other provision of the Plan, any Award which is granted to a Participant and is intended to constitute qualified performance-based compensation under Section 162(m) of the Code will be subject to any additional limitations set forth in the Code (including any amendment to Section 162(m)) or any regulations and ruling issued thereunder that are requirements for qualification as qualified performance-based compensation as described in Section 162(m) of the Code, and the Plan will be deemed amended to the extent necessary to conform to such requirements.

(e) *Determination of Amounts Earned*. Following the completion of each Performance Period, the Administrator will certify in writing whether the applicable Performance Goals have been achieved for such Performance Period. A Participant will be eligible to receive payment pursuant to an Award intended to qualify as performance-based compensation under Section 162(m) of the Code for a Performance Period only if the Performance Goals for such period are achieved. In determining the amounts earned by a Participant pursuant to an Award intended to qualified as performance-based compensation under Section 162(m) of the Code, the Administrator will have the right to (a) reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Administrator may deem relevant to the assessment of individual or corporate performance for the Performance Period, (b) determine what actual Award, if any, will be paid in the event of a termination of employment as the result of a Participant s death or disability or upon a Change in Control or in the event of a termination of employment following a Change in Control prior to the end of the Performance Period, and (c) determine what actual Award, if any, will be paid in the event of a termination of employment other than as the result of a Participant s death or disability prior to a Change in Control and prior to the end of the Performance Period to the extent an actual Award would have otherwise been achieved had the Participant remained employed through the end of the Performance Period.

12. *Leaves of Absence*. Unless the Administrator provides otherwise, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence. A Service Provider will not cease to be an Employee in the case of (i) any leave of absence approved by the Company, or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary. For purposes of Incentive Stock Options, no such leave may exceed three (3) months, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then six (6) months and one day following the commencement of such leave any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

13. *Transferability of Awards*. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate.

14. *Adjustments; Dissolution or Liquidation; Merger or Change in Control*.

(a) *Adjustments*. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Award, and the numerical Share limits set forth in Sections 3, 6, 7, 8, 9, 10, and 23.

(b) *Dissolution or Liquidation*. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed

transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) *Change in Control*. In the event of a merger or Change in Control, each outstanding Award will be treated as the Administrator determines, including, without limitation, that each Award will be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation (the Successor Corporation). The Administrator will not be required to treat all Awards similarly in the transaction.

In the event that the Successor Corporation does not assume or substitute for the Award, the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights, including Shares as to which such Awards would not otherwise be

vested or exercisable, all restrictions on Restricted Stock will lapse, and, with respect to Restricted Stock Units, Performance Shares and Performance Units, all Performance Goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met. In addition, if an Option or Stock Appreciation Right is not assumed or substituted for in the event of a Change in Control, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be fully vested and exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

For the purposes of this subsection (c), an Award will be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) or, in the case of a Stock Appreciation Right upon the exercise of which the Administrator determines to pay cash or a Performance Share or Performance Unit which the Administrator can determine to pay in cash, the fair market value of the consideration received in the merger or Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the Successor Corporation, the Administrator may, with the consent of the Successor Corporation, provide for the consideration to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Performance Share or Performance Unit, for each Share subject to such Award (or in the case of Performance Units, the number of implied shares determined by dividing the value of the Performance Units by the per share consideration received by holders of Common Stock in the Change in Control), to be solely common stock of the Successor Corporation equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

Notwithstanding anything in this Section 14(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more Performance Goals will not be considered assumed if the Company or its successor modifies any of such Performance Goals without the Participant s consent; provided, however, a modification to such Performance Goals only to reflect the Successor Corporation s post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

15. *Tax Withholding*.

(a) *Withholding Requirements*. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof), the Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local, foreign or other taxes (including the Participant s FICA obligation) required to be withheld with respect to such Award (or exercise thereof).

(b) *Withholding Arrangements*. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (without limitation) (i) paying cash, (ii) electing to have the Company withhold otherwise deliverable cash or Shares having a Fair Market Value equal to the minimum amount required to be withheld, (iii) delivering to the Company already-owned Shares having a Fair Market Value equal to the amount required to be withheld, or (iv) selling a sufficient number of Shares otherwise deliverable to the Participant through such means as the Administrator may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. The amount of the withholding requirement will be deemed to include any amount which

the Administrator agrees may be withheld at the time the election is made, not to exceed the amount determined by using the maximum federal, state or local marginal income tax rates applicable to the Participant with respect to the Award on the date that the amount of tax to be withheld is to be determined. The Fair Market Value of the Shares to be withheld or delivered will be determined as of the date that the taxes are required to be withheld.

16. *No Effect on Employment or Service*. Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant s relationship as a Service Provider with the Company, nor will they interfere in any way with the Participant s right or the Company s right to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

17. *Date of Grant*. The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

18. *Term of Plan*. Subject to Section 22 of the Plan, the Plan will become effective upon its adoption by the Board. It will continue in effect for a term of ten (10) years unless terminated earlier under Section 19 of the Plan.

19. *Amendment and Termination of the Plan*.

(a) *Amendment and Termination*. The Administrator may at any time amend, alter, suspend or terminate the Plan.

(b) *Stockholder Approval*. The Company will obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) *Effect of Amendment or Termination*. No amendment, alteration, suspension, or termination of the Plan will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator s ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

20. *Conditions Upon Issuance of Shares*.

(a) *Legal Compliance*. Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) *Investment Representations*. As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

21. *Inability to Obtain Authority*. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company s counsel to be necessary to the lawful issuance and sale of any Shares hereunder, will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority will not have been obtained.

22. *Stockholder Approval*. The Plan will be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.

23. *Non-Employee Director Limitations*. No Non-Employee Director may be granted in any Fiscal Year, Awards covering more than 200,000 Shares, increased to 250,000 Shares in the Fiscal Year of his or her initial service as a Non-Employee Director. Any Awards granted to an individual while he or she was an Employee, or while he or she was a Consultant but not a Non-Employee Director, shall not count for purposes of this limitation.

APPENDIX B

COPART, INC.

STAND-ALONE STOCK OPTION AWARD AGREEMENT

NOTICE OF STOCK OPTION GRANT

Participant Name:

Address:

You have been granted a Nonstatutory Stock Option to purchase Common Stock of Copart, Inc. (the Company), subject to the terms and conditions of this Stand-Alone Stock Option Agreement (the Option Agreement), as follows:

Grant Number	
Date of Grant	
Vesting Commencement Date*	
Exercise Price per Share	$
Total Number of Shares Granted	
Total Exercise Price	$
Term/Expiration Date:	

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* Vesting Commencement Date shall be the Date of Grant for Mr. Mitz and April 15, 2014 for Mr. Adair.

Vesting Schedule:

Subject to any acceleration provisions set forth in this Option Agreement, this Option may be exercised, in whole or in part, in accordance with the following schedule:

One fifth (1/5th) of the Shares subject to the Option shall vest on the one-year anniversary of the Vesting Commencement Date and one sixtieth (1/60th) of the Shares subject to the Option shall vest each month thereafter on the same day of the month as the Vesting Commencement Date, subject to Participant continuing to be a Service Provider through each such date.

Notwithstanding the foregoing and anything contrary in this Option Agreement, if (i) prior to a Change in Control, Participant s status as a Service Provider is terminated by the Company without Cause, or (ii) upon or following a Change in Control, Participant s status as a Service Provider is terminated (A) by the Company, successor corporation or the entity to whom Participant is providing services following a transaction (the Employer) without Cause, or (B) by Participant for Good Reason (any termination described in clauses (i) and (ii), a Covered Termination), then one hundred percent (100%) of Participant s Shares subject to the Option shall immediately vest and become exerciseable.

Termination Period:

As set forth in Section 9 of this Option Agreement, this Option will be exercisable for twelve (12) months after Participant ceases to be a Service Provider, unless such termination is a Covered Termination, in which case this Option will remain exercisable through the Term/Expiration Date as provided above. Notwithstanding the

foregoing sentence, in no event may this Option be exercised after the Term/Expiration Date as provided above and may be subject to earlier termination as provided in Section 11(c) of this Option Agreement.

By Participant s signature and the signature of the Company s representative below, Participant and the Company agree that this Option is granted under and governed by the Terms and Conditions of Stock Option Grant, attached hereto as *Exhibit A*, which is made a part of this document. Participant has reviewed this Option Agreement in its entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option Agreement and fully understands all provisions of the Option Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Option Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT:	COPART, INC.
Signature	By
Print Name	Title

Resident Address:

EXHIBIT A

TERMS AND CONDITIONS OF STOCK OPTION GRANT

1. Definitions. As used herein, the following definitions will apply:

(a) Administrator means the Board or any of its committees as will be administering the Option, in accordance with Section 17 of the Option Agreement.

(b) Option Agreement means this Option agreement between the Company and Participant evidencing the terms and conditions of this Option.

(c) Board means the Board of Directors of the Company.

(d) Cause means (i) any act of dishonesty made by Participant in connection with Participant s responsibilities as a Service Provider; (ii) Participant s conviction of, or plea of nolo contendere to, a felony or any crime involving fraud, embezzlement or any other act of moral turpitude; (iii) Participant s gross misconduct; (iv) willful and continued failure of Participant to substantially perform his or her principal duties and/or obligations of employment to his or her Employer; or (v) Participant s unauthorized use or disclosure of any proprietary information or trade secrets of the Company or any other party to whom Participant owes an obligation of nondisclosure as a result of Participant s relationship with the Company.

(e) Change in Control means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group, (Person) acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than 50% of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection (i), the acquisition of additional stock by any one Person, who is considered to own more than 50% of the total voting power of the stock of the Company will not be considered a Change in Control; or

(ii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause (ii), if any Person is considered to effectively control the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company s assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will

not constitute a change in the ownership of a substantial portion of the Company s assets: (A) a transfer to an entity that is controlled by the Company s stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company s stock, (2) an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, 50% or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (iii)(B)(3). For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this Section 1(e), persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

(f) Code means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein will be a reference to any successor or amended section of the Code.

(g) Common Stock means the common stock of the Company.

(h) Company means Copart, Inc., a Delaware corporation, or any successor thereto.

(i) Consultant means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.

(j) Director means a member of the Board.

(k) Disability means total and permanent disability as defined in Section 22(e)(3) of the Code.

(l) Employee means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director s fee by the Company will be sufficient to constitute employment by the Company.

(m) Fair Market Value means, as of any date, the value of the Common Stock as the Administrator may determine in good faith by reference to the price of such stock on any established stock exchange or a national market system on the day of determination if the Common Stock is so listed on any established stock exchange or a national market system. If the Common Stock is not listed on any established stock exchange or a national market system, the value of the Common Stock will be determined as the Administrator may determine in good faith.

(n) Good Reason means, within thirty (30) days following the expiration of any Company cure period (discussed below) following the occurrence of one or more of the following without Participant s consent: (i) the assignment, reduction or removal of Participant s duties or position, either of which results in a material diminution in Participant s authority, duties or responsibilities with the Company in effect immediately prior to such assignment, reduction or removal; (ii) a material reduction by the Company of Participant s base salary as in effect immediately prior to such reduction; or (iii) the material change in geographic location of Participant s principal place of performing his or her duties as a Service Provider of the Company by more than fifty (50) miles. In order for an event to qualify as Good Reason, Participant must not terminate as a Service Provider without first providing the Company with written notice of the acts or omissions constituting the grounds for Good Reason within ninety (90) days of the initial existence of the grounds for Good Reason and a reasonable cure period of not less than thirty (30) days following the date of such notice.

(o) Nonstatutory Stock Option means an Option that by its terms does not qualify or is not intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(p) Notice of Grant means the portion of this Option Agreement to which these Terms and Conditions of Stock Option Grant are attached.

(q) Option means this option to purchase shares of Common Stock granted pursuant to this Option Agreement.

(r) Parent means a parent corporation, whether now or hereafter existing, as defined in Section 424(e) of the Code.

(s) Participant means the person named in the Notice of Grant or such person s successor.

(t) Service Provider means an Employee, Director, or Consultant.

(u) Share means a share of the Common Stock, as adjusted in accordance with Section 11 of this Option Agreement.

(v) Subsidiary means a subsidiary corporation, whether now or hereafter existing, as defined in Section 424(f) of the Code.

2. Grant of Option. The Company hereby grants to the Participant this Option to purchase the number of Shares set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the Exercise Price), subject to all of the terms and conditions in this Option Agreement.

3. Vesting Schedule. Except as provided in Section 4, the Option awarded by this Option Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Shares scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Option Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Option at any time. If so accelerated, such Option will be considered as having vested as of the date specified by the Administrator.

5. Exercise of Option.

(a) Right to Exercise. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the terms of this Option Agreement.

(b) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit B (the Exercise Notice) or in a manner and pursuant to such procedures as the Administrator may determine, which will state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the Exercised Shares), and such other representations and agreements as may be required by the Company. The Exercise Notice will be completed by Participant and delivered to the Company. The Exercise Notice will be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares together with any applicable tax withholding. This Option will be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price.

6. Method of Payment. Payment of the aggregate Exercise Price will be by any of the following, or a combination thereof, at the election of Participant.

(a) cash;

(b) check;

(c) consideration received by the Company under a formal cashless exercise program adopted by the Company;

(d) by net exercise whereby the Option may be exercised in full or in part by surrendering a portion of the Option as payment of the aggregate Exercise Price per Share for the number of Shares subject to the Option to be exercised. The number of Shares subject to the Option that would be surrendered in payment of the Exercise Price would be determined by multiplying the number of Shares to be exercised by the per Share Exercise Price, and then dividing the product thereof by an amount equal to the per Share Fair Market Value on the date of exercise. If the Fair Market Value of the Shares subject to the portion of the Option that is surrendered pursuant to a net exercise exceeds the aggregate Exercise Price of the Exercised Shares, the excess will be paid to the Participant in cash.

(e) surrender of other Shares which have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares, provided that accepting such Shares, in the sole discretion of the Administrator, will not result in any adverse accounting consequences to the Company.

7. Tax Obligations.

(a) Tax Withholding. Notwithstanding any contrary provision of this Option Agreement, no certificate representing the Shares will be issued to Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income, employment and other taxes which the Company determines must be withheld with respect to such Shares. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to Participant. If Participant fails to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time of the Option exercise, Participant acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

(b) Code Section 409A. Under Code Section 409A, an option that vests after December 31, 2004 that was granted with a per Share exercise price that is determined by the Internal Revenue Service (the IRS) to be less than the Fair Market Value of a Share on the date of grant (a Discount Option) may be considered deferred compensation. A Discount Option may result in (i) income recognition by Participant prior to the exercise of the option, (ii) an additional twenty percent (20%) federal income tax, and (iii) potential penalty and interest charges. The Discount Option may also result in additional state income, penalty and interest charges to Participant. Participant acknowledges that the Company cannot and has not guaranteed that the IRS will agree that the per Share exercise price of this Option equals or exceeds the Fair Market Value of a Share on the Date of Grant in a later examination. Participant agrees that if the IRS determines that the Option was granted with a per Share exercise price that was less than the Fair Market Value of a Share on the date of grant, Participant will be solely responsible for Participant s costs related to such a determination.

8. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

9. Termination of Employment. If Participant ceases to be a Service Provider, the Option will remain exercisable for twelve (12) months, unless such termination is the result of a Covered Termination, in which case the Option will remain exercisable through the Term/Expiration Date as set forth in the Notice of Grant, to the extent the Option is vested on the date of termination (but in no event later than the Term/Expiration Date as set forth in the Notice of Grant), and subject to earlier termination as set forth in Section 11(c). Unless otherwise provided by the Administrator, if on the date of termination Participant is not vested as to the entire Option, the Shares covered by the unvested portion of the Option will terminate. If after termination Participant does not exercise the Option within the time specified herein, the Option will terminate.

10. Leaves of Absence. Unless the Administrator provides otherwise, vesting of the Option granted hereunder will be suspended during any unpaid leave of absence. Participant will not cease to be an Employee in the case of (i) any leave of absence approved by the Company, or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary.

11. Adjustments; Dissolution or Liquidation; Merger or Change in Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Option Agreement, will adjust the number, class, and price of Shares covered by the Option.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent an Option has not been previously exercised, the Option will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control. In the event of a merger or Change in Control, the Option will be treated as the Administrator determines, including, without limitation, that the Option will be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation (the Successor Corporation).

In the event that the Successor Corporation does not assume or substitute for the Option, Participant will fully vest in and have the right to exercise all his or her outstanding Option, including Shares as to which the Option would not otherwise be vested or exercisable. In addition, if the Option is not assumed or substituted for in the event of a Change in Control, the Administrator will notify Participant in writing or

electronically that the Option

will be fully vested and exercisable for a period of time determined by the Administrator in its sole discretion, and the Option will terminate upon the expiration of such period.

For the purposes of this subsection (c), the Option will be considered assumed if, following the Change in Control, the Option confers the right to purchase or receive, for each Share subject to the Option immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the merger or Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the Successor Corporation, the Administrator may, with the consent of the Successor Corporation, provide for the consideration to be received upon the exercise of an Option, for each Share subject to the Option, to be solely common stock of the Successor Corporation equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

Notwithstanding anything in this subsection (c) to the contrary, an Option that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without Participant s consent; provided, however, a modification to such performance goals only to reflect the Successor Corporation s post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Option assumption.

12. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THE OPTION OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

13. Address for Notices. Any notice to be given to the Company under the terms of this Option Agreement will be addressed to the Company, in care of its General Counsel at Copart, Inc., 14185 Dallas Parkway, Suite 300, Dallas, Texas 75254, or at such other address as the Company may hereafter designate in writing.

14. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Participant only by Participant.

15. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Option Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration or qualification of the Shares upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant (or his or her estate), such issuance will not occur unless and until such listing, registration, qualification, consent or approval will have been effected or obtained free of any conditions not acceptable to the Company. The Company will make all reasonable efforts to meet the requirements of any such state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority. Assuming such compliance, for income tax purposes the Exercised Shares will be considered transferred to Participant on the date the Option is exercised with respect to such Exercised Shares.

17. Administrator Authority. The Administrator will have the power to interpret this Option Agreement and to adopt such rules for the administration, interpretation and application of the Option Agreement as are consistent

therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Shares subject to the Option have vested). The Administrator has full authority and discretion to administer this Option Agreement, including but not limited to the authority to: (i) modify or amend the Option (subject to Section 21 of this Option Agreement), including, but not limited to, the discretionary authority to extend the post-termination exercise period of the Option, (ii) authorize any person to execute on behalf of the Company any instrument required to effect the grant or amendment of the Option previously granted or amended by the Administrator, and (iii) provide for the transferability of the Option. All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to this Option Agreement.

18. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to the Option by electronic means or request Participant s consent by electronic means. Participant hereby consents to receive such documents by electronic delivery through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

19. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Option Agreement.

20. Agreement Severable. In the event that any provision in this Option Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Option Agreement.

21. Modifications to the Agreement. This Option Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Option Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Option Agreement can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in this Option Agreement, the Company reserves the right to revise this Option Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Code Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection to this Option.

22. Governing Law. This Option Agreement will be governed by the laws of the State of Delaware, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Option or this Option Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Texas, and agree that such litigation will be conducted in the courts of Dallas County, Texas, or the federal courts for the United States for the Northern District of Texas, and no other courts, where this Option is made and/or to be performed.

EXHIBIT B

COPART, INC.

STAND-ALONE STOCK OPTION AGREEMENT

EXERCISE NOTICE

Copart, Inc.
14185 Dallas Parkway, Suite 300
Dallas, Texas 75254

Attention: [__________]

1. Exercise of Option. Effective as of today, ___________, ____, the undersigned (Purchaser) hereby elects to purchase __________ shares (the Shares) of the Common Stock of Copart, Inc. (the Company) under and pursuant to the Stand-Alone Stock Option Agreement dated __________(the Option Agreement). The purchase price for the Shares will be $_______, as required by the Option Agreement.

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price of the Shares and any required tax withholding to be paid in connection with the exercise of the Option.

3. Representations of Purchaser. Purchaser acknowledges that Purchaser has received, read and understood the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. Rights as Stockholder. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to the Option, notwithstanding the exercise of the Option. The Shares so acquired will be issued to Participant as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in Section 11 of the Option Agreement.

5. Tax Consultation. Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser s purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

6. Entire Agreement; Governing Law. The Option Agreement is incorporated herein by reference. This Exercise Notice and the Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser s interest except by means of a writing signed by the Company and Purchaser. This Option Agreement is governed by the internal substantive laws, but not the choice of law rules, of the State of Delaware.

Submitted by:	Accepted by:
PARTICIPANT:	COPART, INC.
Signature	By
Print Name	Title
Address:	
	Date Received

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Electronic Voting Instructions
Available 24 hours a day, 7 days a week!

Instead of mailing your proxy, you may choose one of the voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

Proxies submitted by the Internet or telephone must be received by 1:00 a.m., Central Time, on December 16, 2013.

Vote by Internet
• Go to www.investorvote.com/CPRT
• Or scan the QR code with your smartphone
• Follow the steps outlined on the secure website

Vote by telephone
• Call toll free 1-800-652-VOTE (8683) within the USA, US territories &
Canada on a touch tone telephone
• Follow the instructions provided by the recorded message

Using a black ink pen, mark your votes with an X as shown in this example. Please do not write outside the designated areas. x

Annual Meeting Proxy Card 1234 5678 9012 345

IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

Proposals — The Board of Directors recommends a vote FOR all the nominees listed in Proposal 1 and FOR Proposals 2, 3, 4 and 5.

1. Election of Directors:	For	Withhold		For	Withhold		For	Withhold+
01 - Willis J. Johnson	o	o	02 - A. Jayson Adair	o	o	03 - Matt Blunt	o	o
04 - Steven D. Cohan	o	o	05 - Daniel J. Englander	o	o	06 - James E. Meeks	o	o
07 - Vincent W. Mitz	o	o	08 - Thomas N. Tryforos	o	o			

	For	Against	Abstain
2. To approve the amendment and restatement of the 2007 Equity Incentive Plan and the number of shares reserved for issuance thereunder.	o	o	o
3. To approve the grant of an option to acquire 2,000,000 and 1,500,000 shares of our common stock to each of A. Jayson Adair, our chief executive officer, and Vincent W. Mitz, our president, respectively, as more fully described in the proxy statement, such grants to be made in lieu of any cash salary or bonus compensation in excess of $1.00 per year or the grant of any additional equity incentives for a five-year period.	o	o	o
4. Advisory (non-binding) vote to approve executive compensation for the year ended July 31, 2013 (say on pay vote).	o	o	o
5.	o	o	o

Ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending July 31, 2014.

6. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting.

Authorized Signatures — This section must be completed for your vote to be counted. — Date and Sign Below

Sign exactly as your name(s) appears on your stock certificate. A corporation is requested to sign its name by its President or other authorized officer, with the office held designated. Executors, administrators, trustees, etc. are requested to so indicate when signing. If stock is registered in two names, both should sign.

Date (mm/dd/yyyy) — Please print date below.	Signature 1 — Please keep signature within the box.	Signature 2 — Please keep signature within the box.
/ /		

IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

Proxy — Copart, Inc.

Proxy for 2013 Annual Meeting of Stockholders
December 16, 2013

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF COPART, INC.

The undersigned stockholder of Copart, Inc. (the "Company") hereby revokes all previous proxies, acknowledges receipt of the notice of the 2013 Annual Meeting of Stockholders to be held on December 16, 2013, and the proxy statement and appoints A. Jayson Adair and Paul A. Styer or either of them, each with full power of substitution, as the proxy and attorney-in-fact of the undersigned to vote and otherwise represent all of the shares registered in the name of the undersigned at the 2013 Annual Meeting of Stockholders of the Company to be held on Monday, December 16, 2013, at 8:00 a.m. Central Time, at 14185 Dallas Parkway, Suite 300, Dallas, TX 75254, and any adjournment thereof, with the same effect as if the undersigned were present and voting such shares on the following matters and in the following manner set forth on the reverse side.

For the proposals on the reverse side, the board of directors recommends that you vote "FOR" all of the nominees for director in Proposal 1 and "FOR" Proposals 2, 3, 4 and 5. This Proxy, when properly executed, will be voted as specified on the reverse side.

THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED IN ACCORDANCE WITH THE SPECIFICATIONS MADE. IF NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED: "FOR" THE ELECTION OF THE DIRECTORS LISTED IN ITEM 1, "FOR" THE PROPOSAL LISTED IN ITEM 2, "FOR" THE PROPOSAL LISTED IN ITEM 3, "FOR" THE PROPOSAL LISTED IN ITEM 4, AND "FOR" THE PROPOSAL LISTED IN ITEM 5; AND AS THE PROXY HOLDER MAY DETERMINE IN HIS DISCRETION WITH REGARD TO ANY OTHER MATTER PROPERLY BROUGHT BEFORE THE MEETING.

CONTINUED AND TO BE SIGNED ON THE REVERSE SIDE

SEE REVERSE SIDE

Non-Voting Items

Change of Address — Please print new address below.

Meeting Attendance

Mark box to the right if you plan to attend the Annual Meeting.
o

n
IF VOTING BY MAIL, YOU MUST COMPLETE SECTIONS A - C ON BOTH SIDES OF THIS CARD.

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The analysis compared publicly available financial information for Chemung Financial and the median financial and market trading data for the Chemung Financial peer group as of and for the last twelve months ended June 30, 2010. The table below sets forth the data for Chemung Financial and the median data for the Chemung Financial peer group as of and for the last twelve months ended June 30, 2010, with pricing data as of October 13, 2010.

Comparable Group Analysis

		Chemung Financial			Comparable Group Median Result	
Total Assets (in millions)	$	1,001		$	1,398	
Tangible Common Equity / Tangible Assets		8.11	%		7.63	%
Total Risk Based Capital Ratio		13.92	%		14.02	%
Core Return on Average Assets		0.87	%		1.13	%
Core Return on Average Equity		9.52	%		10.67	%
Net Interest Margin		3.88	%		3.86	%
Efficiency Ratio		70.8	%		60.8	%
Non-performing Assets / Assets		1.26	%		0.97	%
Net Charge-Offs / Average Loans		0.06	%		0.22	%
Market Capitalization (in millions)	$	76		$	149	
Price / LTM EPS		10.6	x		12.4	x
Price / LTM Core EPS		9.1	x		12.1	x
Price / Tangible Book Value		95	%		153	%

Stock Trading History

Sandler O'Neill reviewed the history of the publicly reported trading prices of Fort Orange's common stock for the three-year period ended October 13, 2010. Sandler O'Neill also reviewed the relationship between the movements in the price of Fort Orange's common stock and the movements in the prices of the S&P Bank Index and the NASDAQ Bank Index.

Fort Orange Three-Year Common Stock Performance

	Beginning Index Value October 13, 2007		Ending Index Value October 13, 2010	
Fort Orange	100.0	%	67.8	%
S&P Bank Index	100.0		35.3	
NASDAQ Bank Index	100.0		55.2	

Sandler O'Neill reviewed the history of the publicly reported trading prices of Chemung Financial common stock for the three-year period ended October 13, 2010. Sandler O'Neill also reviewed the relationship between the movements in the price of Chemung Financial common stock and the movements in the prices of the S&P Bank Index and the NASDAQ Bank Index.

Chemung Financial Three-Year Common Stock Performance

	Beginning Index Value October 13, 2007		Ending Index Value October 13, 2010	
Chemung Financial	100.0	%	77.1	%
S&P Bank Index	100.0		35.3	
NASDAQ Bank Index	100.0		55.2	

Net Present Value Analysis – Fort Orange common stock

Sandler O'Neill performed an analysis that estimated the present value per share of Fort Orange common stock through December 31, 2014. Sandler O'Neill based the analysis on Fort Orange's projected earnings stream as derived from the internal financial projections provided by Fort Orange management for year ending December 31, 2010, and adjusted by management of Chemung Financial to reflect adjustments that would occur after the Merger is completed. To approximate the terminal value of Fort Orange common stock at December 31, 2014, Sandler O'Neill applied price to forward earnings multiples of 10.0x to 22.5x and multiples of tangible book value ranging from 75% to 175%. The income streams and terminal values were then discounted to present values using different discount rates ranging from 11.0% to 17.0%, which were selected to reflect different assumptions regarding desired rates of return of holders of Fort Orange common stock.

Earnings Per Share Multiples
(Value shown is $ per share)

Discount Rate	10.0 x	12.5 x	15.0 x	17.5 x	20.0 x	22.5 x
11.0 %	5.69	7.11	8.53	9.95	11.37	12.79
12.0 %	5.44	6.80	8.15	9.51	10.87	12.23
13.0 %	5.20	6.50	7.80	9.10	10.40	11.70
14.0 %	4.98	6.22	7.46	8.71	9.95	11.20
15.0 %	4.76	5.95	7.14	8.34	9.53	10.72
16.0 %	4.56	5.70	6.84	7.98	9.12	10.26
17.0 %	4.37	5.46	6.55	7.65	8.74	9.83

Tangible Book Value Per Share Multiples
(Value shown is $ per share)

Discount Rate	75 %	95 %	115 %	135 %	155 %	175 %
11.0 %	4.15	5.26	6.36	7.47	8.58	9.68
12.0 %	3.97	5.03	6.09	7.14	8.20	9.26
13.0 %	3.80	4.81	5.82	6.83	7.85	8.86
14.0 %	3.63	4.60	5.57	6.54	7.51	8.48
15.0 %	3.48	4.40	5.33	6.26	7.19	8.11
16.0 %	3.33	4.22	5.11	5.99	6.88	7.77
17.0 %	3.19	4.04	4.89	5.74	6.59	7.44

Sandler O'Neill also considered and discussed with the Chemung Financial board of directors how this analysis would be affected by changes in the underlying assumptions, including variations with respect to net income. To illustrate this impact, Sandler O'Neill performed a similar analysis assuming Fort Orange net income varied from 25% above projections to 25% below projections. This analysis resulted in the following reference ranges of indicated per share values for Fort Orange common stock, using a discount rate of 14.87%:

Earnings Per Share Multiples
(Value shown is $ per share)

EPS Projection Change from Base Case	10.0 x	12.5 x	15.0 x	17.5 x	20.0 x	22.5 x
(25.0 %)	3.59	4.49	5.39	6.29	7.19	8.08
(20.0 %)	3.83	4.79	5.75	6.71	7.66	8.62
(15.0 %)	4.07	5.09	6.11	7.13	8.14	9.16
(10.0 %)	4.31	5.39	6.47	7.54	8.62	9.70
(5.0 %)	4.55	5.69	6.83	7.96	9.10	10.24
0.0 %	4.79	5.99	7.19	8.38	9.58	10.78
5.0 %	5.03	6.29	7.54	8.80	10.06	11.32
10.0 %	5.27	6.59	7.90	9.22	10.54	11.86
15.0 %	5.51	6.89	8.26	9.64	11.02	12.39
20.0 %	5.75	7.19	8.62	10.06	11.50	12.93
25.0 %	5.99	7.48	8.98	10.48	11.98	13.47

Net Present Value Analysis - Chemung Financial common stock

Sandler O'Neill performed an analysis that estimated the present value per share of Chemung Financial common stock through December 31, 2014. Sandler O'Neill based the analysis of Chemung Financial's internal financial projections for the years ending December 31, 2010 through 2013 and an estimated growth and performance rate for the years thereafter in each case as provided by, and reviewed with, senior management of Chemung Financial. To approximate the terminal value of Chemung Financial common stock at December 31, 2013, Sandler O'Neill applied price to forward earnings multiples of 10.0x to 15.0x and multiples of tangible book value ranging from 100% to 200%. The income streams and terminal values were then discounted to present values using different discount rates ranging from 11.0% to 17.0%, which were selected to reflect different assumptions regarding desired rates of return of holders of Chemung Financial common stock.

Earnings Per Share Multiples
(Value shown is $ per share)

Discount Rate	10.0 x	11.0 x	12.0 x	13.0 x	14.0 x	15.0 x
11.0 %	16.83	18.15	19.47	20.79	22.11	23.44
12.0 %	16.16	17.42	18.69	19.95	21.21	22.48
13.0 %	15.52	16.73	17.94	19.15	20.36	21.57
14.0 %	14.92	16.08	17.23	18.39	19.55	20.70
15.0 %	14.35	15.45	16.56	17.67	18.78	19.88
16.0 %	13.80	14.86	15.92	16.98	18.04	19.10
17.0 %	13.28	14.30	15.31	16.33	17.35	18.36

Tangible Book Value Per Share Multiples
(Value shown is $ per share)

Discount Rate	100 %	120 %	140 %	160 %	180 %	200 %
11.0 %	21.13	24.62	28.11	31.60	35.08	38.57
12.0 %	20.28	23.61	26.95	30.28	33.62	36.95
13.0 %	19.47	22.66	25.84	29.03	32.22	35.41
14.0 %	18.69	21.75	24.80	27.85	30.90	33.95
15.0 %	17.96	20.88	23.80	26.73	29.65	32.57
16.0 %	17.26	20.06	22.86	25.66	28.46	31.25
17.0 %	16.60	19.28	21.96	24.64	27.32	30.00

Sandler O'Neill also considered and discussed with the Chemung Financial board of directors how this analysis would be affected by changes in the underlying assumptions, including variations with respect to net income. To illustrate this impact, Sandler O'Neill performed a similar analysis assuming Chemung Financial net income varied from 25% above projections to 25% below projections. This analysis resulted in the following reference ranges of indicated per share values for Chemung Financial common stock, using a discount rate of 14.87%:

Earnings Per Share Multiples
(Value shown is $ per share)

EPS Projection Change from Base Case	10.0 x	11.0 x	12.0 x	13.0 x	14.0 x	15.0 x
(25.0 %)	11.63	12.47	13.31	14.14	14.98	15.81
(20.0 %)	12.19	13.08	13.97	14.86	15.76	16.65
(15.0 %)	12.75	13.70	14.64	15.59	16.54	17.48
(10.0 %)	13.31	14.31	15.31	16.31	17.32	18.32
(5.0 %)	13.86	14.92	15.98	17.04	18.09	19.15
0.0 %	14.42	15.53	16.65	17.76	18.87	19.99
5.0 %	14.98	16.15	17.32	18.48	19.65	20.82
10.0 %	15.53	16.76	17.98	19.21	20.43	21.66
15.0 %	16.09	17.37	18.65	19.93	21.21	22.49
20.0 %	16.65	17.98	19.32	20.66	21.99	23.33
25.0 %	17.20	18.60	19.99	21.38	22.77	24.16

Analysis of Selected Merger Transactions

Sandler O'Neill reviewed the terms of merger transactions announced from January 1, 2009 through October 13, 2010 involving Mid-Atlantic and New England public banks with announced transaction values of greater than $15 million and less than $200 million where the seller's non-performing assets/total assets was less than 2.0% at announcement. Sandler O'Neill deemed these transactions to be reflective of the proposed Fort Orange and Chemung Financial combination. Sandler O'Neill reviewed the following ratios and multiples: transaction price to stated book value, transaction price to stated tangible book value, transaction price to last twelve months earnings per share, core deposit premium and market price premium at announcement. As illustrated in the following table, Sandler O'Neill compared the proposed merger multiples to the median multiples of the comparable transactions.

Comparable Transaction Multiples

	Fort Orange /Chemung Financial		Comparable Transactions	
Transaction price/Book value	128	%	147	%
Transaction price/Tangible book value	128	%	153	%
Transaction price/Last twelve months earnings per share	25.4	x	23.4	x
Core Deposit Premium	4.5	%	5.4	%
Premium to market	68	%	54	%

Pro Forma Merger Analysis

Sandler O'Neill analyzed certain potential pro forma effects of the Merger, assuming the following: (1) the Merger is completed at the end of the first quarter of 2011; (2) Fort Orange shares are exchanged for a combination of cash consideration of $7.50 per share and 0.3571 of a share of Chemung Financial common stock.; (3) management prepared earnings projections for Fort Orange for the year ending December 31, 2010 and adjusted by senior management of Chemung Financial, through 2013; (4) certain purchase accounting adjustments, including a credit mark against Fort Orange's loan portfolio, and additional marks on securities, borrowings, and time deposits; (5) cost savings of 30% of Fort Orange's annual operating expenses, with 100% realized in the first full year; and (6) certain other assumptions pertaining to costs and expenses associated with the transaction, intangible amortization, opportunity cost of cash and other items.

For each of the full years 2012 and 2013, Sandler O'Neill compared the earnings per share of Chemung Financial common stock to the EPS, on a GAAP basis, of the combined company common stock using the foregoing assumptions.

The following table sets forth the results of the analysis:

	GAAP Basis Accretion / (Dilution) (1)	
2011 Estimated EPS	$	0.18
2012 Estimated EPS	$	0.25
2013 Estimated EPS	$	0.21

(1) Excluding one-time transaction expenses

The analyses indicated that the Merger would be accretive to Chemung Financial's projected 2011, 2012 and 2013 earnings per share, excluding one-time transaction expenses. The actual results achieved by the combined company may vary from projected results and the variations may be material.

Sandler O'Neill's Compensation and Other Relationships with Chemung Financial.

Sandler O'Neill has acted as financial advisor to the board of directors of Chemung Financial in connection with the Merger. Chemung Financial agreed to pay Sandler O'Neill a transaction fee of $100,000, $25,000 of which was payable upon the signing of the Merger Agreement and the remainder of the fee contingent upon the completion of the Merger. Sandler O'Neill also received a fee of $75,000 for rendering its fairness opinion to the Chemung Financial board of directors. Chemung Financial has also agreed to reimburse Sandler O'Neill for its reasonable out-of-pocket expenses, up to $15,000, and to indemnify Sandler O'Neill against certain liabilities arising out of its engagement. Sandler O'Neill's fairness opinion was approved by Sandler O'Neill's fairness opinion committee.

In the ordinary course of their respective broker and dealer businesses, Sandler O'Neill may purchase securities from and sell securities to Fort Orange and Chemung Financial and their affiliates. Sandler O'Neill may also actively trade the debt and/or equity securities of Fort Orange and Chemung Financial or their affiliates for their own accounts and for the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.

Effects of the Merger.

As a result of the Merger, Fort Orange will cease to exist, there will no longer be any publicly held shares of Fort Orange common stock and the certificate of incorporation of the surviving company will be Chemung Financial's certificate of incorporation as in effect immediately prior to the Merger.

Those Fort Orange shareholders who receive only Cash Consideration for their shares will not be shareholders in the surviving corporation and therefore will not participate in Chemung Canal's future earnings and potential growth as a subsidiary of Chemung Financial or bear the risk of any losses incurred in the operation of, or decreases in the value of, the surviving company's business. Those Fort Orange shareholders who receive Stock Consideration will only participate in the surviving company's future earnings and potential growth through their ownership of Chemung Financial common stock. All of the other incidents of stock ownership in Fort Orange as an ongoing independent corporation, such as the right to vote on certain corporate decisions, to elect directors and to receive dividends and distributions from Fort Orange, will be extinguished upon completion of the Merger.

As promptly as is reasonably practicable following completion of the Merger, Chemung Financial will apply to have the shares of Chemung Financial issued to Fort Orange shareholders in the Merger listed for quotation on the OTCBB and Fort Orange common stock will no longer trade over-the-counter on Pinksheets.com.

Effective Time of the Merger.

The Merger will occur after the satisfaction of all the closing conditions set forth in the Merger Agreement, including the receipt of all regulatory and shareholder approvals and after the expiration of all regulatory waiting periods. The Merger will be completed legally at the time certificates of merger have been duly filed with the Secretary of State of the States of each of Delaware and New York or at such other time as may be agreed by the parties in writing and specified in the certificates of merger. As of the date of this joint proxy statement/prospectus, the parties expect that the Merger will be completed early in the second calendar quarter of 2011; however, there can be no assurance as to when or if the Merger will occur.

If the Merger is not completed by the close of business on October 31, 2011 (or December 31, 2011 if the reason the Effective Time has not occurred is due to the fact that the parties have not received approval from the regulatory authorities, as defined in the Merger Agreement), the Merger Agreement may be terminated by either Fort Orange or Chemung Financial, unless the party seeking to terminate the Merger Agreement caused or materially contributed to the failure of the Merger to occur on or before such date.

Litigation Related to the Merger.

As of the date of this joint proxy statement/prospectus, there is no pending or, to the best knowledge of Chemung Financial and Fort Orange, threatened, litigation or other legal or regulatory proceedings relating to the Merger.

Conduct of Business Pending the Merger; Covenants.

The Merger Agreement contains various restrictions on the operations of Fort Orange before the Effective Time. In general, the Merger Agreement obligates Fort Orange to conduct its business in the ordinary and usual course of business and use reasonable best efforts to preserve its business organization and assets and maintain its rights and franchises. In addition, Fort Orange has agreed that, except as otherwise required by the Merger Agreement or with the written consent of Chemung Financial, it will not, among other things:

a. change any provision of its certificate of incorporation or bylaws;

b. change its number of authorized or issued shares of common stock or preferred stock or issue or grant any option, warrant, call, commitment, subscription, right or agreement of any character relating to its authorized or issued capital stock or any securities convertible into shares of such stock, or split, combine or reclassify any shares of capital stock, or declare, set aside or pay any dividend or other distribution in respect of capital stock, or redeem or otherwise acquire any shares of its common stock;

c. grant any severance or termination pay (other than pursuant to its current policies, written agreements or practices) to, or enter into or amend any employment agreement with, or increase the compensation of, any employee, officer or director, except for routine periodic increases, individually and in the aggregate, in accordance with past practice or hire any employee other than the hiring of at-will employees at an annual rate of salary not to exceed $50,000 to fill vacancies that may arise from time to time in the ordinary course of business;

d. merge or consolidate (or merge or consolidate Capital Bank) with any other corporation or depository institution, sell or lease all or any substantial portion of its or Capital Bank's assets or business, make any substantial business or asset acquisition other than in connection with the collection of any loan or credit arrangement between Capital Bank and any other parties, enter into a purchase and assumption transaction with respect to deposits and liabilities, or file an application for a certificate of authority to establish a new branch office;

e. sell, gift, transfer, hypothecate, pledge, encumber or otherwise dispose of its common stock or preferred stock or the common stock of Capital Bank or any of its or Capital Bank's respective assets, properties or businesses (other than in connection with deposits, repurchase agreements, acceptances, "treasury tax and loan" accounts established in the ordinary course of business and transactions in "federal funds") other than in the ordinary course of business consistent with past practice, or modify in any material way the manner in which it or Capital Bank has heretofore conducted business or enter into any new line of business, incur or guaranty any indebtedness for borrowed money except in the ordinary course of business consistent with past practice;

f. take any action which would result in any of its representations and warranties in the Merger Agreement becoming untrue as of any date after the date hereof or in any of the conditions set forth in Article VII of the Merger Agreement not being satisfied;

g. waive, release, grant or transfer any rights of value or modify or change in any material respect any existing agreement to which it or Capital Bank is a party, other than in the ordinary course of business, consistent with past practice;

h. implement any pension, retirement, profit sharing, bonus, welfare benefit or similar plan or arrangement that was not in effect on the date of the Merger Agreement, or amend any existing plan or arrangement except to the extent such amendments do not result in an increase in cost or as are required under applicable law;

i. compromise, extend or restructure any loan with an unpaid principal balance exceeding $250,000 without Chemung Financial's consent, provided, that with respect to such compromise, extension or restructure, Chemung Financial shall inform Fort Orange of its consent or objection within five (5) business days after Fort Orange's request for such consent. Should Chemung Financial fail to respond to such request within such time, it shall be deemed to have granted its consent to such request;

j. sell, exchange or otherwise dispose of any investment securities prior to scheduled maturity or loans that are held for sale;

k. purchase any security for its investment portfolio not rated "A" or higher by either Standard & Poor's Corporation or Moody's Investor Services, Inc.;

l. except as consistent with past practice, make any loan or other credit facility commitment (including without limitation, lines of credit and letters of credit) to any affiliate, or compromise, extend, renew or modify any such commitment outstanding;

m. except as consistent with past practice, enter into, renew, extend or modify any other transaction with any affiliate;

n.

enter into any interest rate swap or similar commitment, derivative security, collateralized debt obligation or any other commitment, agreement or arrangement which is not consistent with past practice and which increases its or Capital Bank's credit or interest rate risk over the levels existing on October 14, 2010;

o. change its accounting method, practice or principles of accounting except as may be required by GAAP or by a regulatory authority;

p. except for accepting deposits and selling certificates of deposit in the ordinary course of business, enter into any contract for an amount in excess of $25,000;

q. make any capital expenditure in excess of $25,000;

r. enter into any new line of business;

s. take any action that is intended or may reasonably be expected to result in any of its representations and warranties set forth in the Merger Agreement being or becoming untrue or materially misleading or in any of the conditions to the Merger not being satisfied, or in a violation of any provision of the Merger Agreement or the bank merger agreement, except, in every case, as may be required by applicable laws; or

t. agree to do any of the foregoing.

Representations and Warranties.

The Merger Agreement contains a number of customary representations and warranties by Chemung Financial and Fort Orange regarding aspects of their respective businesses, financial condition, structure and other facts pertinent to the Merger that are customary for a transaction of this kind and are subject, in some cases, to specified exceptions and qualifications contained in the Merger Agreement or in the disclosure schedules delivered in connection therewith. They include, among other things, representation and warranties by each of Chemung Financial and Fort Orange as to:

a. the due organization, valid existence, and good standing of each of Fort Orange and Chemung Financial and their respective subsidiaries;

b. description of the capitalization of each of Fort Orange and Chemung Financial and the valid issuance of their capital stock, and related matters;

c. ownership of the securities of each of Fort Orange's and Chemung Financial's respective subsidiaries and other investments;

d. requisite corporate power and authority of each of Fort Orange and Chemung Financial and their subsidiaries to execute, deliver and perform the Merger Agreement and all related transactions, and to conduct their respective businesses and own their respective properties and assets;

e. the absence of any required regulatory filings or governmental consents with certain exceptions, and the absence of any conflicts with and violations of law and various documents, contracts and agreements;

f. the absence, since December 31, 2009, of events or circumstances that have had or are reasonably likely to have a materially adverse effect on either Fort Orange or Chemung Financial;

g. the absence of adverse material litigation against either Fort Orange or Chemung Financial or any of their respective subsidiaries or to which Fort Orange, Chemung Financial or any of their respective subsidiaries is a party;

h. the absence of regulatory orders or investigations of either Fort Orange or Chemung Financial or any of their subsidiaries;

i. compliance with all applicable laws and regulations by each of Fort Orange and Chemung Financial and its respective subsidiaries;

j. the accuracy and completeness of the statements of fact made in filings with governmental entities in connection with the Merger Agreement;

k. receipt of a written opinion by each of Fort Orange and Chemung Financial from their respective financial advisors in relation to the fairness of the merger consideration;

l. the filing of tax returns, payment of taxes and other tax matters;

m. compliance with applicable environmental laws;

n. accurate maintenance of each of Fort Orange's and Chemung Financial's and their respective subsidiaries' books and records;

o. proper filing of reports and statements required to be filed with the parties' regulators, and the compliance of such reports with applicable rules and regulations;

p. adequacy of reserves and other allowance for losses;

q. absence of any reason to believe that any conditions exist that would reasonably be expected to prevent the Merger from qualifying as a reorganization;

r. good and marketable title to all assets; and

s. compliance with the Bank Secrecy Act and related laws and regulations.

In addition to the above, Fort Orange represented and warranted as to the following:

a. maintenance of adequate insurance coverage;

b. the absence of certain off-balance sheet liabilities;

c. validity, enforceability and absence of breach under certain material contracts;

d. validity, enforceability and absence of breach under, and compliance with, prudent business practices and applicable laws and regulations of certain derivative contracts and transactions;

e. compliance of Fort Orange's benefit plans with applicable law;

f. labor and employee benefit matters;

g. compliance of the Merger Agreement and the Merger with applicable "business combination; and similar anti-takeover laws;

h. absence of intellectual property infringements or violations;

i. absence of impediments under the securities laws and regulations with regard to the activities of broker-dealers of the company or its subsidiaries;

j existence of effective internal controls over financial reporting;

k. certain fiduciary commitments and duties;

l. the composition of Fort Orange’s loan portfolios;

m. absence of certain transactions with affiliates;

n. absence of any fees payable by Fort Orange or any of its subsidiaries to brokers, finders or financial advisors, other than Fin Pro, in connection with the Merger;

o. adequacy of security measures with regards to Fort Orange’s information technology systems and absence of any viruses, Trojan horses, worms other hardware or software components that permit unauthorized access, disablement or erasure of data by any third party;

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p. absence of any agreements with, or obligations to or claims by officers, directors, employees or certain other persons for indemnification other than as set forth in the disclosure schedule to the Merger Agreement; and

q. the execution and delivery by Fort Orange's directors of certain voting and non-competition agreements, as described elsewhere in this joint proxy statement/prospectus.

In addition to the above, Chemung Financial represented and warranted as to the following:

sufficiency of funds as of the Effective Time to pay the aggregate Cash Consideration required in connection with the Merger; and

compliance of reports and financial statements filed by Chemung Financial with the SEC relating to relevant securities laws and regulations and the accuracy of such reports and financial statements.

All representations, warranties and covenants of the parties, other than certain covenants and agreements which by their terms apply in whole or in part after the completion of the Merger, terminate upon the Effective Time.

Employee Matters.

Pursuant to the terms of the Merger Agreement, Chemung Financial has agreed that it will do the following in connection with any employment of Fort Orange employees:

(a) Subject to evaluation of personnel records, offer to retain all of Capital Bank's branch employees and two of its lending officers. Other Fort Orange and Capital Bank employees whose positions might be eliminated or whose responsibilities might be materially changed as a result of the Merger will be considered for open positions within Chemung Financial and Chemung Canal. Notification will be given by Chemung Financial following the execution of the Merger Agreement of employment opportunities available at Chemung Financial or Chemung Canal, and Fort Orange will notify Chemung Financial of individuals who have an interest in applying for the open position(s) and such persons will be given first opportunity to fill the open position(s), provided they qualify for the position(s).

(b) Chemung Financial will pay to Capital Bank employees who are not parties to employment, severance, change of control or like agreements and whose employment is terminated other than for cause within six (6) months of the Closing Date, a cash severance benefit equal to two (2) weeks of salary for each year of service, with a minimum benefit equal to three (3) months salary. Chemung Financial and Chemung Canal intend to honor all of Fort Orange's and Capital Bank's existing employment, severance, change of control and like agreements. Notwithstanding anything contained therein or in the Merger Agreement, no payment shall be made under any employment, retention bonus, deferred compensation, change of control and severance contract or plan that would constitute a "parachute payment" (as such term is defined in Section 280G of the Internal Revenue Code) or that would be prohibited by any regulatory authority to which Fort Orange or Capital Bank is subject.

(c) After the completion of the Merger, employees of Fort Orange and Capital Bank who become employed by Chemung Financial or Chemung Canal will be eligible for employee benefits that Chemung Financial or Chemung Canal, as the case may be, provides to its employees generally and, except as otherwise required by the Merger Agreement, on substantially the same basis as is applicable to such employees, provided that nothing in the Merger Agreement shall require any duplication of benefits. Chemung Financial or Chemung Canal will: (i) give credit to employees of Fort Orange and Capital Bank with respect to the satisfaction of the limitations as to pre-existing condition exclusions, evidence of insurability requirements and waiting periods for participation and coverage that are applicable under the employee welfare benefit plans (within the meaning of Section 3(1) of ERISA) of Chemung

Financial or Chemung Canal, equal to the credit that any such employee had received as of the Effective Time towards the satisfaction of any such limitations and waiting periods under the comparable employee welfare benefit plans of Fort Orange and Capital Bank and to waive preexisting condition limitations to the same extent waived under the corresponding plan; and (ii) Chemung Financial or Chemung Canal will treat, and cause its applicable benefit plans to treat, the service of the Fort Orange employees with Fort Orange or Capital Bank as service rendered to Chemung Financial or Chemung Canal, as applicable: (a) for purposes of eligibility to participate and vesting, but not for benefit accrual under any defined benefit plan (including minimum pension amount) attributable to any period before the Effective Time; and (b) for vacation and sick leave benefits. Benefits under Chemung Financial pension plans, if any, shall be determined solely with reference to service with Chemung Financial.

Conditions to the Merger

The respective obligations of Chemung Financial and Fort Orange to complete the Merger are subject to various conditions prior to the Merger. The conditions include, without limitation, the following:

i. all action required to be taken by or on the part of Chemung Financial, Chemung Canal, Fort Orange and Capital Bank to authorize the execution, delivery and performance of the Merger Agreement and bank plan of merger and the transactions contemplated by the Merger Agreement shall have been duly and validly taken and Fort Orange and Chemung Financial shall have received evidence of such authorizations;

ii. all obligations of Chemung Financial and Fort Orange under the Merger Agreement shall have been performed and complied with in all material respects prior to the Effective Time, and representations and warranties made by both parties shall be true and correct in all material respects as of the closing of the Merger, except under limited circumstances, including where the facts which cause the representation or warranty to not be true would not constitute a material adverse effect on Chemung Financial's and Chemung Canal's or Fort Orange's and Capital Bank's assets, business, financial condition or results of operations;

iii the receipt of all regulatory approvals necessary to complete the transactions contemplated by the Merger Agreement and the bank plan of merger, and the expiration or termination, as applicable, of all applicable notices and statutory waiting periods and absence of any requirement that would restrict Chemung Financial in its operations or have a material adverse effect on Chemung Financial following completion of the Merger;

iv. absence of any order, decree or injunction of a governmental entity which enjoins or prohibits the consummation of the Merger or the bank merger;

v. effectiveness of Chemung Financial's registration statement of which this joint proxy statement/prospectus is a part and absence of any stop order suspending its effectiveness or initiation of proceedings for that purpose that have not been withdrawn;

vi. receipt by Chemung Financial and Fort Orange of legal opinions from their respective counsels in form and substance satisfactory to each other;

vii. approval of the Merger by the shareholders of both Fort Orange and Chemung Financial;

viii. execution and delivery of the Voting Agreement by Mr. Cureau shall have been obtained;

ix. execution and delivery of the settlement and release agreement, in form satisfactory to Chemung Financial, by Fort Orange and Capital Bank, on the one hand, and Mr. Cureau, on the other hand;

x. there shall be a valid enforceable lease for Capital Bank's Wolf Road branch providing for a lease term up to and including December 31, 2011, with two (2) one-year renewal options at an annual rent amount satisfactory to Chemung Financial, and Chemung Financial shall have received an estoppel certificate executed by the landlord for each of Capital Bank's branch offices;

xi. Chemung Financial shall have provided to Fort Orange satisfactory evidence of insurance coverage for the directors and officers of Fort Orange and Capital Bank, as required by the Merger Agreement; and

xii. approval of the shares of Chemung Financial common stock to be issued as the Stock Consideration in the Merger for quotation on the OTCBB.

The parties may waive conditions to their obligations in writing, to the extent permitted by applicable law.

Regulatory Approvals Required for the Merger.

Completion of the Merger is subject to the receipt of all required approvals and consents from regulatory authorities, and the expiration of any applicable statutory waiting periods, without any term or condition that would have a material adverse effect on Chemung Financial. Chemung Financial and Fort Orange have agreed to use their reasonable best efforts to obtain all required regulatory approvals. These include approvals from the Federal Reserve and the Banking Department. We have or will file applications for such approvals.

Although Chemung Financial and Fort Orange currently believe they should be able to obtain all required regulatory approvals in a timely manner, Chemung Financial and Fort Orange cannot be certain when or if we will obtain them or, if obtained, whether they will contain terms, conditions or restrictions not currently contemplated that will be detrimental to Chemung Financial after the completion of the Merger or will contain a material adverse condition.

Federal Reserve.

Completion of the Merger is subject, among other things, to approval by the Federal Reserve pursuant to Section 3 of the Bank Holding Company Act of 1956, as amended. The Federal Reserve may not grant that approval if it determines that the Merger:

- would result in a monopoly or be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States; or

- would substantially lessen competition in any part of the United States, or tend to create a monopoly or result in a restraint of trade, unless the Federal Reserve finds that the anti-competitive effects of the transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the communities to be served.

In reviewing the transaction, the Federal Reserve will consider:

- the financial and managerial resources and future prospects of both companies and their respective subsidiary bank;

- the convenience and needs of the communities to be served;

- applicable overall capital and safety and soundness standards;

- the effectiveness of both companies in combating money laundering activities; and

- each company’s regulatory status, including legal and regulatory compliance.

Under the Community Reinvestment Act of 1977, as amended, (“CRA”) the Federal Reserve will take into account Chemung Financial’s and Fort Orange’s records of performance in meeting the credit needs of their respective communities, including low- and moderate-income neighborhoods. In considering this criterion, it is reasonable to assume that the Federal Reserve will consider the fact that Chemung Financial’s principal banking subsidiary received an “outstanding” regulatory rating, and Fort Orange’s principal banking subsidiary received an “outstanding” regulatory rating, in their most recent respective CRA examinations.

Furthermore, the Bank Holding Company Act and Federal Reserve regulations require published notice of, and the opportunity for the public and the Banking Department to comment on, Chemung Financial's application, and authorize the Federal Reserve to hold a public hearing or meeting if the Federal Reserve determines that a hearing or meeting would be appropriate. Any hearing or meeting or comments provided by third parties could prolong the period during which the application is under review by the Federal Reserve.

The Bank Holding Company Act requires a thirty (30) day waiting period before completing the Merger after Federal Reserve approval is received, during which time the Department of Justice ("DOJ") may challenge the Merger on antitrust grounds. With the approval of the Federal Reserve and the concurrence of the DOJ, the waiting period may be reduced to no less than 15 days. The commencement of an antitrust action would stay the effectiveness of such an approval unless a court specifically ordered otherwise. In reviewing the Merger, the DOJ could analyze the Merger's effect on competition differently than the Federal Reserve, and thus it is possible that the DOJ could reach a different conclusion than the Federal Reserve does regarding the Merger's effects on competition. A determination by the DOJ not to object to the Merger may not prevent the filing of antitrust actions by private persons or any state attorney general.

The merger of Capital Bank into Chemung Canal is also subject to the approval of the Federal Reserve under the Bank Merger Act. In its consideration of an application for approval of a bank merger, the Federal Reserve is required to consider factors substantially identical to those it must consider under Section 3 of the Bank Holding Company Act of 1956, as amended.

Banking Department

The New York State Superintendent of Banks must approve the merger of Capital Bank with Chemung Canal under Article 13 of the New York Banking Law. The Banking Department will review and consider a number of factors when deciding whether to approve the bank merger, including whether: (i) the banks' investment and lending practices are consistent with safe and sound banking practices; (ii) the bank merger will lessen competition among banking organizations in New York; (iii) the bank merger is consistent with the public interest, needs and convenience; and (iv) whether Chemung Canal has financial and managerial resources to successfully implement the bank merger. The Banking Department also will review the records of Chemung Canal and Capital Bank under the CRA. The Superintendent may, at his discretion, hold a public hearing on the Merger and/or the bank merger.

No Solicitation; Board Recommendation.

Fort Orange has agreed that it will not, and will cause its subsidiaries and its subsidiaries' officers and directors not to, and will use its reasonable best efforts to cause its and its subsidiaries' employees, agents, advisors and other representatives and affiliates not to, initiate, solicit, encourage or knowingly facilitate inquiries or proposals with respect to, or engage in any negotiations concerning, or provide any confidential information to, or have any discussions with, any person relating to the Merger or the Merger Agreement, any acquisition proposal (including any tender or exchange offer to acquire 25% or more of the voting power of Fort Orange or any of its significant subsidiaries), a proposal for a merger, consolidation or other business combination involving Fort Orange or any of its significant subsidiaries or any other proposal or offer to acquire in any manner 25% or more of the voting power in, or 25% or more of the business, assets or deposits of, Fort Orange or any of its significant subsidiaries.

In the event, prior to the time when Fort Orange's shareholders approve the Merger Agreement at the Fort Orange special meeting:

Fort Orange receives an unsolicited bona fide acquisition proposal from a person other than Chemung Financial;

the Fort Orange board of directors concludes in good faith (1) that such acquisition proposal constitutes a superior competing proposal or would reasonably be likely to result in a superior competing proposal and (2) that, after considering the advice of outside counsel, failure to take such actions would result in a violation of the directors' fiduciary duties under Delaware law; and Fort Orange has notified Chemung Financial of its receipt of such proposal, Fort Orange may, and may permit its subsidiaries and its

subsidiaries' representatives to, provide confidential information and participate in negotiations or discussions with respect to such superior competing proposal (subject to the entry into a confidentiality agreement substantially similar to its confidentiality agreement with Chemung Financial). A superior competing proposal means a bona fide written acquisition proposal to acquire in any manner 50% or more of the voting power in, or all or substantially all of the business, assets or deposits of, Fort Orange, that the Fort Orange board of directors concludes in good faith to be more favorable from a financial point of view to its shareholders than the Merger (1) after receiving the advice of its financial advisor, (2) after taking into account the likelihood of completion of such transaction on the terms set forth therein (as compared to, and with due regard for, the terms in the Merger Agreement) and (3) after taking into account all legal (with the advice of outside counsel), financial (including the financing terms of any such proposal), regulatory and other aspects of such proposal and any other relevant factors permitted under applicable law.

Fort Orange has agreed to submit the Merger Agreement for approval by its shareholders and convene a special meeting of shareholders as promptly as practicable after the registration statement of which this joint proxy statement/prospectus is a part is declared effective by the SEC. The Fort Orange board has recommended that its shareholders vote in favor of the Fort Orange Merger proposal. Fort Orange will not withdraw or modify (or propose to withdraw or modify) its recommendation to its shareholders to vote in favor of the Fort Orange Merger proposal, except as permitted under the Merger Agreement in connection with a superior competing proposal (as defined in the Merger Agreement). If, prior to approval by its shareholders, the Fort Orange board, after consultation with outside counsel, determines in good faith that, because of the receipt of a takeover proposal that is a superior competing proposal, it would result in a violation of its fiduciary duties under Delaware law to continue to recommend adoption of the Merger Agreement, the Fort Orange board may modify or withdraw its recommendation.

Similarly, Chemung Financial has agreed to convene a meeting of its shareholders to vote upon the approval of the Merger. The Chemung Financial board has recommended to its shareholders to vote in favor of the Chemung Financial Merger proposal. The Chemung Financial board will not withdraw or modify (or propose to withdraw or modify) its recommendation to its shareholders unless, prior to approval by Chemung Financial's shareholders of the Chemung Financial Merger proposal, its board, after consultation with outside counsel, determines in good faith that it would result in a violation of its fiduciary duties under New York law to continue to recommend approval of the Merger.

Termination; Termination Fee.

The Merger Agreement may be terminated and the Merger abandoned at any time prior to the Effective Time, as follows:

- by mutual agreement of Chemung Financial and Fort Orange;

- upon 15 days' written notice by the non-breaching party, if there has occurred and is continuing a breach by the other party of any representation, warranty or covenant and such breach cannot be or has not been cured within 15 days after the giving of written notice to the breaching party of such breach;

- by Chemung Financial or Fort Orange, if the other party (1) fails to hold its special meeting within the time frame specified in the Merger Agreement; or (2) submits the Merger Agreement to its shareholders without a recommendation for approval or makes an adverse recommendation,

- by Fort Orange, in order to enter into an agreement with respect to a Superior Competing Proposal (as defined in the Merger Agreement) or by Chemung Financial, in the event that Fort Orange enters into such an agreement;

- by either party, if the Merger has not closed by the close of business on October 31, 2011 (or December 31, 2011 if required governmental approvals have not been received by that date), unless the party seeking to terminate the Merger Agreement caused or materially contributed to the failure of the Merger to occur before such date;

- by either party, if a required governmental approval is denied by final, non-appealable action, unless the party seeking to terminate the Merger Agreement failed to comply with the Merger Agreement and such failure caused or materially contributed to such action;

by Fort Orange if: (i) at the Effective Time, the Closing Price is less than $17.85 per share; and (ii) during the period between October 15, 2010 and the Effective Time the per share price of Chemung Financial stock shall have underperformed the Index by 20%, The term "underperformed" means that the per share price shall have declined by more than an additional 20% over the performance of an index of the stock prices of the common stock of the publicity traded banks headquartered in New York and Pennsylvania with total assets between $500 million and $4 billion during such period. For example, if the Index declined 15% during the period, Chemung Financial Stock must have declined by more than 35% to constitute underperformance; or

by Chemung Financial if, at the end of the month immediately preceding the closing, the Fort Orange Delinquent Loans (as defined in the Merger Agreement) are $10.5 million or greater.

In the event that the Merger Agreement is terminated by either party because Fort Orange shall agree to a Superior Competing Proposal then Fort Orange must pay Chemung Financial within three business days following adoption by Fort Orange's board of directors of a resolution approving or adopting such Superior Competing Proposal, a termination fee equal to 2.5% of the merger consideration (presently estimated to be $725,000.00) calculated as if the Effective Time had occurred on the date on which the Merger Agreement is terminated.

Modification or Amendment.

At any time prior to the Effective Time, the parties to the Merger Agreement may modify or amend the Merger Agreement, by written agreement executed and delivered by duly authorized officers of the respective parties, except to the extent that any such amendment would violate the law or would require resubmission of the Merger Agreement for vote by the shareholders of Fort Orange or Chemung Financial.

At any time before the Effective Time, Chemung Financial may revise the structure of the Merger and related transactions, to the extent that such revised structure (1) does not change the amount or form of consideration to be received by the shareholders of Fort Orange and the holders of Fort Orange stock options; (2) does not adversely affect the tax consequences to the shareholders of Fort Orange, (3) will not materially delay or jeopardize required governmental approvals; (4) does not cause any representation or warranty of any party to the Merger Agreement to become materially incorrect; or (5) does not diminish any benefits to Fort Orange officers, directors or employees. The Merger Agreement and any related documents would then be appropriately amended in order to reflect any such revised structure.

Stock Market Quotation.

As promptly as reasonably practicable following completion of the Merger, Chemung Financial common stock will continue to trade over-the-counter on the OTCBB, and Fort Orange common stock will cease to be quoted on Pinksheets.com.

Fees and Expenses.

Chemung Financial and Fort Orange shall be responsible for their own expenses incurred in connection with the Merger Agreement and the transactions contemplated thereby.

Material Federal Income Tax
Consequences of the Merger

The following discussion addresses the material federal income tax consequences of the Merger to a Fort Orange shareholder who is a U.S. holder (defined below) and who holds shares of Fort Orange common stock as a capital asset. This discussion is based upon the Internal Revenue Code, Treasury regulations promulgated under the Internal Revenue Code, judicial authorities, published positions of the Internal Revenue Service ("IRS") and other applicable authorities, all as in effect on the date of this discussion and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This discussion does not address all aspects of federal income taxation that may be relevant to Fort Orange shareholders in light of their particular circumstances and does not address aspects of federal income taxation that may be applicable to Fort Orange shareholders subject to special treatment under the Internal Revenue Code (including banks, tax-exempt organizations, insurance companies, dealers in securities, traders in securities that elect to use a mark-to-market method of accounting, investors in pass-through entities, Fort Orange shareholders who hold their shares of Fort Orange common stock as part of a hedge, straddle or conversion transaction, and Fort Orange shareholders who acquired their shares as compensation). In addition, this discussion does not address any aspect of state, local or foreign taxation. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax aspects set forth below.

For purposes of this section, the term "U.S. holder" means a beneficial owner of Fort Orange common stock that for U.S. federal income tax purposes is:

a citizen or resident of the United States;

a corporation or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any State or the District of Columbia;

an estate, the income of which is subject to U.S. federal income tax regardless of its source; or

a trust, the substantial decisions of which are controlled by one or more U.S. persons and which is subject to the primary supervision of a U.S. court, or a trust that validly has elected under applicable Treasury regulations to be treated as a U.S. person for U.S. federal income tax purposes.

Fort Orange shareholders are encouraged to consult their tax advisors with respect to the particular federal, state, local and foreign tax consequences of the Merger to them.

The closing of the Merger is conditioned upon the receipt by Chemung Financial and Fort Orange of an opinion of their legal counsel, Hinman, Howard sand Kattell, LLP and Hiscock and Barclay, LLP, respectively, dated as of the closing date of the Merger, that, on the basis of facts, representations and assumptions set forth or referred to in that opinion (including factual representations contained in certificates of officers of Chemung Financial and Fort Orange) which are consistent with the state of facts existing as of the closing date of the Merger, The Merger constitutes a reorganization under Section 368(a) of the Internal Revenue Code.

The tax opinions delivered in connection with the registration statement on Form S-4, filed by Chemung Financial in connection with the Merger and to be delivered as of the closing date of the Merger are not binding on the IRS or the courts, and neither Chemung Financial nor Fort Orange intends to request a ruling from the IRS with respect to the federal income tax consequences of the Merger. Consequently, no assurance can be given that the IRS will not assert, or that a court would not sustain, a position contrary to any of those set forth below. The discussion below is a summary of the material federal income tax consequences of the Merger to Fort Orange shareholders that will result from qualification of the Merger as a reorganization within the meaning of Section 368(a) of the Internal Revenue

Code. In addition, if any of the facts, representations or assumptions upon which the opinion is based is inconsistent with the actual facts, the federal income tax consequences of the Merger could be adversely affected.

Exchange for Chemung Financial Common Stock.

If, pursuant to the Merger, a U.S. holder exchanges all of his or her respective shares of Fort Orange common stock actually owned by him or her solely for shares of Chemung Financial common stock, that holder will not recognize any gain or loss except regarding any cash received in lieu of any fractional share of Chemung Financial common stock (as discussed below). The aggregate adjusted tax basis of the shares of Chemung Financial common stock received in the Merger (including any fractional share deemed received and redeemed, as described below) will be equal to the aggregate adjusted tax basis of the shares of Fort Orange common stock surrendered for the Chemung Financial common stock. The holding period of the Chemung Financial common stock will include the period during which the surrendered shares of Fort Orange common stock were held by the Fort Orange shareholder. If a U.S. holder has differing bases or holding periods in respect of his or her respective shares of the surrendered Fort Orange common stock, that shareholder should consult his or her tax advisor prior to the exchange with regard to identifying the bases or holding periods of the particular shares of Chemung Financial common stock received in the exchange.

Cash Received in Exchange for Fort Orange Stock.

If, pursuant to the Merger, a U.S. holder exchanges all of the holder's respective shares of Fort Orange common stock actually owned by him or her solely for cash, then such holder generally will recognize gain or loss equal to the difference between the amount of cash received and the basis in such Fort Orange common stock. Generally, any gain recognized upon the exchange will be capital gain.

Cash Received in Lieu of a Fractional Share.

Cash received by a U.S. holder in lieu of a fractional share of Chemung Financial common stock generally will be treated as received in redemption of the fractional share, and a gain or loss generally will be recognized based on the difference between the amount of cash received in lieu of the fractional share and the portion of the shareholder's aggregate adjusted tax basis of the shares of Fort Orange common stock surrendered that is allocable to the fractional share. The gain or loss generally will be long-term capital gain or loss if the holding period for the redeemed fractional share of Fort Orange common stock is held for more than one year. The deductibility of capital losses is subject to limitations.

Reporting Requirements.

A holder of Fort Orange common stock who receives Chemung Financial common stock as a result of the Merger will be required to retain records pertaining to the Merger. Certain Fort Orange shareholders are subject to certain reporting requirements with respect to the Merger. In particular, such shareholders will be required to attach a statement to their tax returns for the year of the Merger that contains the information listed in Treasury Regulation Section 1.368-3(b). Such statement must include the shareholder's adjusted tax basis in his or her Fort Orange common stock and other information regarding the reorganization. Holders of Fort Orange common stock are urged to consult with their tax advisers with respect to these and other reporting requirements applicable to the Merger.

Backup Withholding.

A holder of Fort Orange common stock may be subject to information reporting and backup withholding (currently at a rate of 28%) in connection with any cash payment received in exchange for his or her stock or instead of a fractional share of Chemung Financial common stock if the shareholder is a non-corporate United States person and (1) fails to provide an accurate taxpayer identification number; (2) is notified by the IRS that it has failed to report all interest or dividends required to be shown on its federal income tax returns; or (3) in certain circumstances, fails to comply with applicable certification requirements. Amounts withheld under the backup withholding rules will be allowed as a

refund or credit against a shareholder's federal income tax liability provided that the shareholder furnishes the required information to the IRS.

The foregoing discussion is not intended to be a complete analysis or description of all potential federal income tax consequences of the Merger transaction. In addition, this discussion does not address tax consequences that may vary with, or are contingent on, a Fort Orange shareholder's individual circumstances. It also does not address any federal estate tax or state, local or foreign tax consequences of the Merger. Tax matters are very complicated, and the tax consequences of the transaction to a Fort Orange shareholder will depend upon the facts of his or her particular situation. Accordingly, we strongly encourage you to consult with a tax advisor to determine the particular tax consequences to you of the transaction, as well as to any later sale of shares of Chemung Financial common stock received by you in the Merger.

Accounting Treatment.

In accordance with current accounting guidance, the Merger will be accounted for using the acquisition method. The result of this is that the recorded assets and liabilities of Chemung Financial will be carried forward at their recorded amounts, the historical operating results will be unchanged for the prior periods being reported on and that the assets and liabilities of Fort Orange will be adjusted to fair value at the date of the Merger. In addition, all identified intangibles will be recorded at fair value and included as part of the net assets acquired. To the extent that the purchase price, consisting of cash plus the number of shares of Chemung Financial common stock to be issued to former Fort Orange shareholders and option holders at fair value, exceeds the fair value of the net assets including identifiable intangibles of Fort Orange at the Merger date, that amount will be reported as goodwill. In accordance with current accounting guidance, goodwill will not be amortized but will be evaluated for impairment annually. Identified intangibles will be amortized over their estimated lives. Further, the acquisition method of accounting results in the operating results of Fort Orange being included in the operating results of Chemung Financial beginning from the date of completion of the Merger.

Stock Trading and Dividend Information for Fort Orange.

Fort Orange common stock currently trades over-the-counter on Pinksheets.com under the symbol “FOFC”. The following table sets forth the intra-day high and low sales prices for shares of Fort Orange common stock and dividend payments made each quarter for the last three fiscal years and first quarter of 2011 through January 19, 2011. As of January 19, 2011 , the most recent practicable trading day before the date of this joint proxy statement/prospectus, there were 3,702,312 shares of Fort Orange common stock outstanding.

Year Ending December 31, 2011	High	Low	Dividends Per Share
First quarter (through January 19, 2011)	$ 7.20	$ 7.12	—

Year Ending December 31, 2010	High	Low	Dividends Per Share
Fourth quarter	$ 7.75	$ 4.49	—
Third quarter	$ 5.00	$ 4.40	—
Second quarter	$ 6.00	$ 5.00	—
First quarter	$ 5.10	$ 3.43	—

Year Ending December 31, 2009	High	Low	Dividends Per Share
Fourth quarter	$4.48	$3.81	—
Third quarter	$5.00	$4.43	—
Second quarter	$4.77	$4.29	—
First quarter	$5.24	$2.38	—

Year Ending December 31, 2008	High	Low	Dividends Per Share
Fourth quarter	$5.24	$3.33	—
Third quarter	$5.48	$4.81	—
Second quarter	$8.16	$5.15	—
First quarter	$6.58	$5.44	—

On October 14, 2010, the business day immediately preceding the public announcement of the Merger, and on January 19, 2011 , the most recent practicable trading day before this joint proxy statement/ prospectus was finalized, the closing prices of Fort Orange common stock as reported by Pinksheets.com were $4.55 per share and $7.12 per share, respectively.

Stock Trading and Dividend Information for Chemung Financial.

Chemung Financial common stock currently trades over-the-counter on the OTCBB under the symbol "CHMG.OB". The following table sets forth the intra-day high and low sales prices for shares of Chemung Financial common stock and dividend payments made each quarter for the last three fiscal years and first quarter of 2011 through January 19, 2011 . As of January 19, 2011 , the most recent practicable trading day before the date of this joint proxy statement prospectus, there were 3,560,918 shares of Chemung Financial common stock outstanding.

Chemung Financial common stock currently trades over-the-counter on the OTCBB under the symbol "CHMG.OB". The following table sets forth the intra-day high and low sales prices for shares of Chemung Financial common stock and dividend payments made each quarter for the last two fiscal years. As of December 22, 2010, the most recent practicable trading day before the date of this joint proxy statement prospectus, there were 3,550,254 shares of Chemung Financial common stock outstanding.

Year Ending December 31, 2011	High	Low	Dividends Per Share
First quarter (through January 19, 2011)	$ 24.00	$ 22.00	$ 0.25

Year Ending December 31, 2010	High	Low	Dividends Per Share
Fourth quarter	$ 24.00	$ 20.50	$ 0.25
Third quarter	$ 22.00	$ 20.15	$ 0.25
Second quarter	$ 21.55	$ 19.90	$ 0.25
First quarter	$ 21.40	$ 19.65	$ 0.25

Year Ending December 31, 2009	High	Low	Dividends Per Share
Fourth quarter	$23.00	$19.55	$0.25
Third quarter	$21.25	$18.75	$0.25
Second quarter	$23.00	$17.25	$0.25
First quarter	$22.00	$15.00	$0.25

Year Ending December 31, 2008	High	Low	Dividends Per Share
Fourth quarter	$25.10	$19.55	$0.25
Third quarter	$26.30	$22.15	$0.25
Second quarter	$28.25	$25.50	$0.25
First quarter	$28.25	$24.35	$0.25

On October 14, 2010, the business day immediately preceding the public announcement of the Merger, and on January 19, 2011 the most recent practicable trading day before the date of this joint proxy statement/prospectus, the closing prices of Chemung Financial common stock as traded on the OTCBB were $21.50 per share and $22.70 per share, respectively.

SELECTED HISTORICAL FINANCIAL DATA
FOR CHEMUNG FINANCIAL AND FORT ORANGE

Chemung Financial Selected Historical Financial and Other Data.

The following tables set forth selected historical financial and other data of Chemung Financial for the periods and as of the dates indicated. The information at and for the nine months ended September 30, 2010 and 2009 is unaudited. However, in the opinion of management of Chemung Financial, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the unaudited periods have been made. The selected operating data presented below for the nine months ended September 30, 2010 are not necessarily indicative of a full year's operations.

	(Unaudited) As of or for the Nine Months Ended September 30,		As of or for the Years Ended December 31,				
	2010	2009	2009	2008	2007	2006	2005
	(Dollar amounts in thousands, except per share data)						
Summarized balance sheet data:							
Total assets	$ 972,700	$ 968,638	$ 975,919	$ 838,318	$ 788,874	$ 739,050	$ 718,039
Loans, net of deferred fees and costs, and unearned income	590,519	605,219	595,853	565,185	539,522	477,664	418,685
Investment securities	253,967	236,308	243,143	199,694	169,801	191,696	241,566
Federal Home Loan Bank and Federal Reserve Bank stock	3,339	3,281	3,281	3,155	5,902	3,605	5,356
Deposits	803,511	794,019	801,063	656,909	572,600	585,092	524,937
Securities sold under agreements to repurchase	43,766	55,061	54,263	63,413	31,212	35,024	60,856
Federal Home Loan Bank advances	20,000	20,000	20,000	20,000	82,400	27,900	40,800
Stockholders' equity	97,293	87,004	90,086	83,007	88,115	82,298	81,178
Summarized earnings data:							

Net interest income	$ 25,972	$ 24,516	$ 33,155	$ 30,668	$ 25,936	$ 24,546	$ 24,737
Provision for loan losses	1,125	2,075	2,450	1,450	1,255	125	1,300
Net interest income after provision for loan losses	24,847	22,441	30,705	29,218	24,681	24,421	23,437
Other operating income:							
Trust and investment services income	6,257	5,999	8,089	6,834	6,345	4,901	5,095
Securities gains, net	451	556	785	589	10	27	6
Trust preferred impairment	(393)	(1,380)	(2,242)	(803)	—	—	—
Net gains on sales of loans held for sale	166	197	259	114	98	103	107
Other income	6,426	6,572	8,819	10,404	10,176	9,281	7,806
Total other operating income	12,907	11,944	15,710	17,138	16,629	14,312	13,014
Other operating expenses	27,543	29,000	39,321	33,968	30,521	29,523	27,315

	(Unaudited) As of or for the Nine Months Ended September 30,		As of or for the Years Ended December 31,				
	2010	2009	2009	2008	2007	2006	2005
	(Dollar amounts in thousands, except per share data)						
Income before income taxes	10,211	5,385	7,094	12,388	10,789	9,210	9,136
Income taxes	3,157	1,440	1,861	4,034	3,530	2,621	2,546
Net income	$ 7,054	$ 3,945	$ 5,233	$ 8,354	$ 7,259	$ 6,589	$ 6,590
Selected per share data on shares of common stock							
Net income per share	$ 1.96	$ 1.10	$ 1.45	$ 2.32	$ 2.02	$ 1.81	$ 1.79
Dividends declared	$ 0.75	$ 0.75	$ 1.00	$ 1.00	$ 0.97	$ 0.96	$ 0.96
Tangible book value	$ 22.92	$ 19.82	$ 20.64	$ 18.96	$ 22.50	$ 22.09	$ 21.35
Market price	$ 21.25	$ 20.20	$ 21.25	$ 20.40	$ 27.25	$ 32.90	$ 30.25
Average shares outstanding	3,605	3,602	3,603	3,594	3,595	3,642	3,689
Selected financial ratios and other data:							
Return on average assets	0.95 %	0.58 %	0.56 %	1.00 %	0.95 %	0.91 %	0.92 %
Return on average tier 1 equity (1)	12.12 %	7.05 %	6.97 %	11.45 %	9.53 %	8.60 %	8.83 %
Dividend yield	4.71 %	4.95 %	4.71 %	4.90 %	3.67 %	2.92 %	3.17 %
Dividend payout ratio	37.42 %	66.96 %	67.30 %	42.07 %	47.02 %	51.94 %	52.68 %
Total capital to risk adjusted assets	14.27 %	12.94 %	13.22 %	13.58 %	15.78 %	17.11 %	18.06 %
Tier 1 capital to risk adjusted assets	12.68 %	11.36 %	11.61 %	11.97 %	13.84 %	15.12 %	16.02 %
Tier 1 leverage ratio	8.29 %	7.91 %	7.89 %	8.94 %	10.14 %	10.80 %	10.71 %
Loans to deposits	73.49 %	76.22 %	74.38 %	86.04 %	94.22 %	81.64 %	79.76 %
Allowance for loan losses to total loans	1.64 %	1.68 %	1.67 %	1.61 %	1.57 %	1.67 %	2.34 %
Allowance for loan losses to non-performing	86.57 %	78.48 %	72.20 %	200.40 %	236.58 %	221.15 %	106.97 %

loans														
Non-performing loans to total loans	1.89	%	2.14	%	2.32	%	0.80	%	0.66	%	0.76	%	2.18	%
Net interest rate spread	3.53	%	3.50	%	3.49	%	3.46	%	2.88	%	2.88	%	3.17	%
Net interest margin	3.82	%	3.91	%	3.89	%	4.05	%	3.71	%	3.69	%	3.74	%
Efficiency ratio (2)	69.24	%	77.33	%	78.40	%	68.11	%	70.03	%	74.77	%	71.09	%

(1) Average Tier 1 Equity is average shareholders' equity less average goodwill and intangible assets and average accumulated other comprehensive income/loss.

(2) Efficiency ratio is operating expenses adjusted for amortization of intangible assets and stock donations divided by net interest income plus other operating income adjusted for non-taxable gains on stock donations.

Fort Orange Selected Historical Financial and Other Data.

The following tables set forth selected historical financial data of Fort Orange for the periods and at the dates indicated. The information at and for the nine months ended September 30, 2010 and 2009 is unaudited. However, in the opinion of management of Fort Orange, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the unaudited periods have been made. The selected operating data presented below for the nine months ended September 30, 2010, are not necessarily indicative of a full year's operations.

	(Unaudited) As of or for the Nine Months Ended September 30,		As of or for the Years Ended December 31,				
	2010 (1)	2009 (1)	2009	2008	2007	2006	2005
	(Dollar amounts in thousands, except per share data)						
Selected financial condition data:							
Total assets	$ 270,872	$ 267,258	$ 286,668	$ 248,645	$ 230,601	$ 195,990	$ 155,884
Loans and leases, net	186,487	193,227	196,462	209,502	185,043	164,306	116,201
Securities available for sale	34,051	26,447	24,903	25,813	20,394	25,339	33,047
Securities held to maturity	9,057	2,944	2,719	3,586	—	—	—
Deposits	210,179	200,511	222,258	187,601	181,975	169,585	139,416
Borrowings	36,522	43,758	41,437	38,504	26,852	8,369	—
Stockholders' equity	22,641	21,468	21,530	20,863	20,034	16,211	15,391
Common shares outstanding (period end) (2)	3,701,064	3,703,417	3,703,615	3,714,317	3,726,315	2,929,556	2,917,859
Selected operations data:							
Interest income	$ 10,136	$ 9,617	$ 12,918	$ 13,047	$ 13,414	$ 10,678	$ 7,420
Interest expense	3,239	4,150	5,435	6,456	7,505	5,682	3,300
Net interest income	6,897	5,467	7,483	6,591	5,909	4,996	4,120
Provision for loan losses	1,250	885	1,405	455	250	150	55

Net interest income after provision for loan losses	5,647	4,582	6,078	6,136	5,659	4,846	4,065
Non-interest income	441	617	916	168	129	374	172
Non-interest expenses	4,573	4,321	5,710	5,286	4,811	4,201	3,595
Income before income taxes	1,515	878	1,284	1,018	977	1,019	642
Income taxes	585	353	514	408	377	444	277
Net income	930	525	770	610	600	575	365
Dividends on convertible preferred stock	—	—	—	—	(5)	(59)	(269)
Income attributable to common shares	$930	$525	$770	$610	$595	$516	$96
Stock and related per share data (2):							
Earnings per common share:							
Basic	$0.25	$0.14	$0.21	$0.16	$0.18	$0.17	$0.06
Diluted	$0.25	$0.14	$0.21	$0.16	$0.18	$0.17	$0.06
Cash dividends on common stock	$—	$—	$—	$—	$—	$—	$—
Book value per common share	$6.11	$5.79	$5.80	$5.61	$5.37	$4.82	$4.56
Market price of common stock:							
High (during period)	$6.00	$5.24	$5.24	$8.16	$8.62	$9.07	$7.26
Low (during period)	$3.43	$2.38	$2.38	$3.33	$5.90	$6.80	$5.22
Close (period end)	$4.47	$4.43	$4.48	$4.52	$6.35	$8.12	$6.58
Selected financial ratios and							

other data:														
Performance ratios (3):														
Return on average assets	0.44	%	0.27	%	0.29	%	0.26	%	0.29	%	0.32	%	0.25	%
Return on average equity	5.59	%	3.30	%	3.61	%	3.00	%	3.54	%	3.66	%	3.19	%

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	(Unaudited) As of or for the Nine Months Ended September 30,		As of or for the Years Ended December 31,				
	2010 (1)	2009 (1)	2009	2008	2007	2006	2005
	(Dollar amounts in thousands, except per share data)						
Net interest rate spread (tax-equivalent)	3.16 %	2.51 %	2.57 %	2.33 %	2.18 %	2.17 %	2.44 %
Net interest margin (tax-equivalent)	3.42 %	2.90 %	2.93 %	2.88 %	2.86 %	2.85 %	2.93 %
Efficiency ratio (4)	63.94 %	75.03 %	72.91 %	78.30 %	79.68 %	80.00 %	84.31 %
Dividend payout ratio (common stock related)	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Capital ratios:							
Total risk-based capital (5)	12.68 %	11.94 %	11.88 %	11.02 %	10.26 %	11.20 %	14.53 %
Tier 1 risk-based capital (5)	11.43 %	10.87 %	10.81 %	10.06 %	9.32 %	10.22 %	13.30 %
Leverage ratio (5)	7.89 %	7.74 %	7.62 %	8.41 %	7.61 %	8.16 %	9.75 %
Ratio of stockholders’ equity to total assets	8.36 %	8.03 %	7.51 %	8.39 %	8.69 %	8.27 %	9.87 %
Asset quality ratios:							
Total non-performing loans	$ 2,503	$ 1,964	$ 1,445	$ 1,657	$ 1,619	$ 734	$ 668
Other non-performing assets	—	—	—	—	—	—	—
Allowance for loan losses	3,151	2,075	2,113	1,930	1,715	1,510	1,397
Net loan charge-offs (recoveries)	211	740	1,223	240	45	37	(19)
Total non-performing loans to total loans	1.32 %	1.01 %	0.73 %	0.78 %	0.87 %	0.44 %	0.57 %
Allowance for loan losses to non-performing loans	125.89 %	105.65 %	146.23 %	116.48 %	105.93 %	205.72 %	209.13 %
Allowance for loan losses to total	1.66 %	1.06 %	1.06 %	0.91 %	0.92 %	0.91 %	1.19 %

loans							
Net charge-offs (recoveries) to average loans	0.14 %	0.49 %	0.61 %	0.13 %	0.03 %	0.03 %	(0.02 %)
Other data:							
Number of branch offices	5	5	5	5	5	4	3
Full-time equivalent employees	40	40	38	37	37	31	22

(1) Annualized where appropriate.

(2) All share and per share information has been retroactively adjusted for the 5% stock dividends in May 2010 and May 2008.

(3) Computed using daily averages.

(4) The efficiency ratio represents the ratio of non-interest expenses, excluding any significant non-recurring expenses, to the sum of net interest income and non-interest income, excluding net gains or losses on the sale of securities and any significant non-recurring income. The efficiency ratio is not a financial measurement required by GAAP. However, the efficiency ratio is used by Fort Orange management in its assessment of financial performance specifically as it relates to non-interest expense control and Fort Orange management believes such information is useful to investors in evaluating company performance.

(5) Ratio presented for Capital Bank & Trust Company.

Management's Discussion and Analysis of
Financial Condition and Results of Operations Regarding Fort Orange

General.

Fort Orange's business is affected not only by competition and general economic conditions, but also by governmental, tax, monetary, and fiscal policies. Fort Orange's operations are subject to regulation, examination, and supervision by the FDIC, the Banking Department and the Federal Reserve. Federal and state banking regulations regulate, among other things, the scope of the business of a bank, a bank holding company, or a financial holding company; the investments a bank may make; deposit reserves a bank must maintain; the establishment of branches; and the activities of a bank with respect to mergers and acquisitions.

The earnings and growth of Fort Orange and the banking industry in general are affected by the monetary and fiscal policies of the United States government and its agencies, particularly the Federal Reserve. The Federal Open Market Committee of the Federal Reserve implements national monetary policy in an attempt to curb inflation and combat recession. The Federal Reserve uses its power to adjust interest rates in United States Government securities, the discount rate and the deposit reserve retention rates. The actions of the Federal Reserve influence growth of bank loans, investment and deposits. They can also affect interest rate changes on loans and deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

In addition to other laws and regulations, Capital Bank is subject to the Community Reinvestment Act, which requires the Federal bank regulatory agencies, when considering certain applications involving Fort Orange or Capital Bank, to consider Capital Bank's record of helping to meet the credit needs of the entire community within its market area, including low and moderate income neighborhoods. Capital Bank's latest Community Reinvestment Act rating was "Outstanding."

Critical Accounting Policies.

Fort Orange's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and follow general practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, the consolidated financial statements for future periods could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. Below is a discussion of the accounting policies that Fort Orange considers to be its critical accounting policies.

Determination of the Allowance for Loan Losses.

The allowance for loan losses is an amount that management believes will be necessary to absorb probable losses on existing loans. Management's evaluation of the allowance for loan losses is performed on a periodic basis. Historical loss rates are applied to existing loans with similar characteristics. The historical loss rates used to establish the allowance may be adjusted to reflect management's current assessment of various factors. The impact of economic conditions on the creditworthiness of the borrowers is considered, as well as changes in the experience, ability and depth of lending management and staff, changes in the composition and volume of the loan portfolio, trends in the volume of past due, non-accrual and classified loans, as well as other external factors, such as competition, legal developments and regulatory guidelines.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions. In addition, federal and state bank regulatory agencies, as an integral part of their examination process, periodically review Fort Orange's allowance for loan losses. Such agencies may require Fort Orange to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination, which may not be currently available to management.

Evaluation of Other-Than-Temporary Impairment of Securities.

Declines in the fair value of available for sale and held to maturity securities below their cost that are deemed to be "other-than-temporary" are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of Fort Orange to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value, which may be maturity.

Valuation of Deferred Income Taxes.

The Company accounts for income taxes in accordance with the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized subject to management's judgment that those assets will more likely than not be realized. A valuation allowance is recognized if, based on an analysis of available evidence, management believes that all or a portion of the deferred tax assets will not be realized. Adjustments to increase or decrease the valuation allowance are charged or credited, respectively, to income tax expense/benefit. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Interest and penalties related to income taxes, if any, are recognized as a component of income tax expense.

Comparison of Financial Condition at September 30, 2010 and December 31, 2009.

This discussion provides information concerning changes in the consolidated financial condition of Fort Orange Financial Corp. and subsidiaries from December 31, 2009 to September 30, 2010. This discussion is intended to supplement and should be reviewed in conjunction with the unaudited consolidated interim financial statements, related notes and selected financial data presented elsewhere herein. This discussion should also be read in conjunction with Management's Discussion and Analysis as of and for the year ended December 31, 2009.

Total Assets.

Total assets decreased by $15.8 million from year-end 2009 to September 30, 2010. Decreases in cash and cash equivalents and loans were partially offset by increases in securities available for sale and securities held to maturity.

Cash and Cash Equivalents.

Total cash and cash equivalents were $34.8 million at September 30, 2010, down $21.5 million from year-end 2009. During the first nine months of 2010, cash and cash equivalents were used to fund deposit outflows (in particular, one large deposit account that existed at year-end 2009) and invest in securities for yield enhancement and interest rate risk considerations.

Securities.

Fort Orange maintains a portfolio of securities to enhance income, manage liquidity needs, and fulfill pledging requirements. The securities portfolio at September 30, 2010 was comprised of U.S. agency securities, mortgage-backed securities, collateralized mortgage obligations, corporate debt securities, municipal securities, and loan pools guaranteed by the Small Business Administration ("SBA"). Securities available for sale and securities held

to maturity increased by $9.1 million and $6.3 million, respectively, during the first nine months of 2010. As loans outstanding declined during the first nine months of 2010, Fort Orange reinvested the funds into its securities portfolios. Also, due to Fort Orange's large position of cash and cash equivalents during the nine months ended September 30, 2010, additional funds were invested into the securities portfolios for yield enhancement and interest rate risk considerations.

Loans.

Loans outstanding totaled $189.6 million at September 30, 2010, down $8.9 million from December 31, 2009. The primary decreases were in residential real estate loans (down $7.5 million) and construction and land loans (down $4.1 million). These decreases were partially offset by an increase in commercial real estate loans (up $2.4 million).

During 2009 and 2010, due to the historically low interest rate environment, many home owners chose to refinance their mortgage loans, leading to a substantial increase in prepayments in our residential real estate portfolio. Borrowers' general preference for longer-term, fixed rate loans, combined with our loan pricing and duration requirements, led to the decrease in our residential real estate portfolio. The decrease in construction and land loans was due primarily to the continued run-off of our credit-enhanced construction loan pools, which decreased by $5.5 million during the first nine months of 2010. Commercial real estate lending remains a core competency of Fort Orange and the increase during the first nine months of 2010 reflects continued strong originations of this product type.

Asset Quality.

Non-performing loans totaled $2.5 million, or 1.32% of total loans, at September 30, 2010, up from $1.4 million, or 0.73% of total loans, at December 31, 2009. The primary reason for the increase in non-performing loans during the first nine months of 2010 was one commercial real estate loan with a balance of $967,000 at September 30, 2010, that was placed on non-accrual status during the third quarter. Excluding this one loan, 67% of the remaining balance of non-performing loans at September 30, 2010 is comprised of residential real estate loans.

Allowance for Loan Losses.

Fort Orange assumes lending and credit risks as a principal element of its business, and anticipates that credit losses will be experienced in the normal course of business. Accordingly, management makes a monthly determination as to an appropriate provision from earnings necessary to maintain an allowance for loan losses that is adequate for probable losses. Management's evaluation is based upon a continuing review of the loan portfolio, which includes factors such as the risk characteristics of individual loans, net loan charge-off or recovery experience, delinquency rates, the overall size and composition of the loan portfolio, and local and general economic conditions. The allowance for loan losses totaled $3.2 million, or 1.66% of total loans, at September 30, 2010, as compared to $2.1 million, or 1.06% of total loans, at December 31, 2009. The allowance for loan losses represented 125.9% of non-performing loans at September 30, 2010, as compared to 146.2% of non-performing loans at December 31, 2009. The increase in the allowance for loan losses during the first nine months of 2010, both in dollars and as a percentage of the loan portfolio, is reflective primarily of the continued sluggish economic environment and the impact on certain borrowers, as well as the increase in non-performing loans during the period.

Management reviews the allowance for loan losses monthly and makes provisions for loan losses, when necessary, in order to maintain the adequacy of the allowance. Management believes the allowance for loan losses is adequate to cover risks inherent in Fort Orange's loan portfolio at September 30, 2010. However, there can be no assurance that Fort Orange will not have to increase its provision for loan losses in the future as a result of changes in economic conditions or for other reasons, which could adversely affect Fort Orange's results of operations.

Deposits.

Total deposits were $210.2 million at September 30, 2010, down $12.1 million or 5.4% from year-end 2009. The decrease in deposits during the first nine months of 2010 was due primarily to the expected outflow of one large NOW account that had a balance of $14.3 million at December 31, 2009. Within the deposit portfolio, demand accounts and

money market accounts were fairly flat from year-end 2009 to September 30, 2010, while NOW accounts decreased by $12.3 million, due primarily to the large account outflow noted above. Savings accounts increased $5.7 million during the period, while total time deposits dropped by $5.4 million. Given the historically low interest rate environment, customers continued to migrate to shorter-term, more liquid deposits such as NOW and savings accounts, as opposed to longer-term, less liquid deposits such as time deposits.

Borrowings.

Total borrowings were $36.5 million at September 30, 2010, down $4.9 million from year-end 2009. The primary reason for the decrease was $4.0 million in Federal Home Loan Bank of New York ("FHLB") advances that matured and were repaid during the first nine months of 2010, as well as $377,000 of principal paydowns on FHLB amortizing advances.

Stockholders' Equity.

Total stockholders' equity was $22.6 million at September 30, 2010, up $1.1 million or 5.2% from year-end 2009. The overall increase is due principally to $930,000 of earnings that were retained during the nine month period. In addition, accumulated other comprehensive income, which represents the net unrealized gains on securities available for sale, net of tax, increased by $179,000 during the period due primarily to an overall decrease in market interest rates. Stockholders' equity as a percentage of total assets was 8.36% at September 30, 2010, as compared to 7.51% at year-end 2009. Book value per common share was $6.11 at September 30, 2010, up from $5.80 at December 31, 2009 (as adjusted to give effect to the 5% common stock dividend distributed on May 14, 2010).

Capital provides the foundation for future growth and profitability for Fort Orange and Capital Bank. At September 30, 2010, Capital Bank's Tier 1 leverage ratio was 7.89% versus 7.62% at December 31, 2009. The total capital to risk-weighted assets ratio at September 30, 2010 was 12.68% compared to 11.88% at December 31, 2009. The increase in both ratios can be attributed primarily to the growth in capital during the nine-month period as a result of retained earnings. All of Capital Bank's capital ratios at September 30, 2010 exceed the minimum regulatory levels, and place Capital Bank in the "well-capitalized" category according to regulatory standards.

Interest Rate Risk.

Interest rate risk is the primary market risk affecting Fort Orange. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of Fort Orange's business activities. Interest rate risk is defined as an exposure to a movement in interest rates that could have an adverse effect on net interest income. Net interest income is susceptible to interest rate risk to the degree that interest-bearing liabilities mature or reprice on a different basis than earning assets. When interest-bearing liabilities mature or reprice more quickly than earning assets in a given period, a significant increase in market rates could adversely affect net interest income. Similarly, when earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income.

Fort Orange utilizes an Asset and Liability Committee ("ALCO"), which generally meets monthly, to review, among other items, Fort Orange's interest rate sensitivity on an ongoing basis and to prepare strategies to limit exposure to interest rate risk. One primary objective of the ALCO is to maximize Fort Orange's net interest income while maintaining a level of risk appropriate given Fort Orange's business focus, operating environment, capital, liquidity requirements and performance objectives. The ALCO also reviews Fort Orange's balance sheet composition, liquidity, capital position, cash flow needs, maturities of securities, loans, deposits and borrowings, and current market conditions and interest rates. The ALCO also has input with respect to deposit pricing decisions. Notwithstanding Fort Orange's interest rate risk management activities, the potential for changing interest rates is an uncertainty that can have an adverse effect on net interest income and net income.

In adjusting Fort Orange's asset/liability position, management and the ALCO attempt to manage interest rate risk while minimizing net interest margin compression. At times, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, management and

ALCO may determine to increase Fort Orange's interest rate risk position somewhat in an attempt to increase its net interest margin.

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Fort Orange's primary tool for measuring and monitoring interest rate risk is an asset/liability simulation model, which is prepared quarterly. The model is run first based on: (i) the current balance sheet; (ii) a projected balance sheet one year in the future; and (iii) an interest rate forecast prepared by management. Additional models are then run reflecting instantaneous parallel interest rate shocks up or down. Fort Orange examines projected changes to net interest income and the economic value of equity assuming various rising or falling interest rate scenarios. The results of the simulation model are reported to both the ALCO and the board of directors on a quarterly basis.

The following table summarizes the estimated percentage change in net interest income in various rising and falling interest rate scenarios over a 12-month period from the forecasted net interest income under management's interest rate scenario using the September 30, 2010 balance sheet position:

Interest Rate Sensitivity Analysis

Immediate Shock in Interest Rates (in basis points):		Percentage Change in Net Interest Income	
-	100	(4.5	%)
+	100	3.0	%
+	200	6.0	%
+	300	8.8	%
+	400	10.8	%

The asset/liability simulation model used by Fort Orange to measure, monitor and manage interest rate risk is based on various projections and assumptions. Some of the more critical projections and assumptions include: forecasted market interest rates; the future composition of the balance sheet; prepayment rates on loans and securities; estimated deposit withdrawal activity; and the level of deposit rates. Actual net interest income will likely differ, at times materially, from the estimates projected as a result of the simulation model.

Liquidity Risk.

Managing liquidity involves meeting the day-to-day needs of depositors and borrowers, taking advantage of investment opportunities, and providing a cushion against unforeseen cash flow needs.

Sources of liquidity for Fort Orange include cash and cash equivalents, securities, including monthly cash flows from amortizing securities such as mortgage-backed securities and collateralized mortgage obligations, and maturing and repaying loans. Fort Orange also meets its liquidity needs by attracting deposits and utilizing borrowing arrangements with the FHLB, the Federal Reserve (through access to discount window borrowings), and other correspondent banks. All borrowings with the FHLB, including short-term lines of credit and longer-term advances, must be collateralized by securities, qualifying loans and/or FHLB stock under a blanket pledge agreement with the FHLB. Based on the amount of specific collateral pledged, the Bank could have borrowed a maximum of $56.8 million from the FHLB as of September 30, 2010, of which $31.3 million was outstanding.

Capital Bank also has a $3.0 million unsecured line of credit available with a correspondent financial institution. Fort Orange (the holding company only) has a $5.0 million secured line of credit available with a different financial institution. Fort Orange's line of credit is collateralized by its ownership in Capital Bank's stock. There were no advances outstanding on either of these lines of credit at September 30, 2010.

Fort Orange's sources of liquidity are deemed by management to be sufficient to fund outstanding loan commitments and meet other obligations such as depositor withdrawals and borrowing maturities.

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Comparison of Results of Operations for the Nine Months Ended September 30, 2010 and 2009.

Fort Orange earned net income of $930,000 or $0.25 per common share for the nine months ended September 30, 2010, as compared to $525,000 or $0.14 per common share for the comparable period during 2009. All share and per share information in this discussion and analysis has been retroactively adjusted to give effect to the 5% common stock dividend distributed on May 14, 2010.

Return on average assets for the nine months ended September 30, 2010 was 0.44%, compared to 0.27% for the comparable 2009 period. Return on average equity for the nine months ended September 30, 2010 was 5.60%, compared to 3.31% for the nine months ended September 30, 2009.

Average Balances, Interest Income and Expense, and Average Yields and Rates.

The following table sets forth certain information relating to Fort Orange's average earning assets and average interest-bearing liabilities for the periods indicated. The yields and rates were derived by dividing tax-equivalent interest income or interest expense by the average balance of assets or liabilities, respectively, for the periods shown. Statutory tax rates were used to calculate tax-exempt securities income on a tax-equivalent basis. Average balances were computed based on average daily balances. Non-accruing loans have been included in loan balances. The yield on securities available for sale and securities held to maturity is computed based upon amortized cost.

	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
	(Dollars in thousands)					
Earning Assets:						
Securities available for sale and securities held to maturity:						
Taxable	$ 36,585	$ 935	3.41 %	$ 28,728	$ 1,003	4.66 %
Tax-exempt	1,559	41	3.51	—	—	—
Total securities	38,144	976	3.41	28,728	1,003	4.66
Loans:						
Commercial, commercial real estate and construction	155,483	7,364	6.25	156,489	6,612	5.57
Residential real estate	31,109	1,173	5.03	37,572	1,455	5.16
Home equity and consumer	7,448	197	3.53	6,995	179	3.41
Total loans	194,040	8,734	6.00	201,056	8,246	5.47
Federal Home Loan Bank stock	2,081	73	4.69	1,802	53	3.93
Short-term investments	35,368	366	1.38	20,217	315	2.08
Total earning assets	269,633	10,149	5.00	251,803	9,617	5.07

Cash and due from banks	8,758			5,048		
Allowance for loan losses	(2,697)			(2,052)		
Other assets	5,241			3,544		
Total assets	$ 280,935			$ 258,343		
Interest-Bearing Liabilities:						
NOW accounts	$ 33,791	$ 229	0.91 %	$ 22,541	$ 230	1.36 %
Money market accounts	9,803	68	0.93	7,949	55	0.93
Savings accounts	68,292	514	1.01	59,869	722	1.61
Time deposits	77,577	1,527	2.63	86,230	2,278	3.53
Total interest-bearing deposits	189,463	2,338	1.65	176,589	3,285	2.49
Short-term borrowings	10,779	32	0.39	6,731	18	0.35
Long-term borrowings	33,775	869	3.39	32,524	847	3.43
Total interest-bearing liabilities	234,017	3,239	1.84	215,844	4,150	2.56
Demand deposits	23,038			19,500		
Other liabilities	1,694			1,773		
Total liabilities	258,749			237,117		
Stockholders’ equity	22,186			21,226		
Total liabilities and equity	$ 280,935			$ 258,343		
Net interest income – tax-equivalent		6,910			5,467	
Less: tax-equivalent adjustment		(13)			—	
Net interest income, as reported		$ 6,897			$ 5,467	
Net interest spread			3.16 %			2.51 %
Net interest margin			3.42 %			2.90 %

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Volume and Rate Analysis.

The following table presents the extent to which changes in interest rates and changes in the volume of earning assets and interest-bearing liabilities have affected our tax-equivalent interest income and interest expense during the nine months ended September 30, 2010, as compared to the nine months ended September 30, 2009. Information is provided in each major category with respect to: (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Nine Months Ended September 30, 2010 vs. 2009		
	Increase (Decrease) Due to		Total Increase/
	Volume	Rate	(Decrease)
Earnings assets:		(Dollars in thousands)	
Securities	$ 278	$ (305)	$ (27)
Loans	(276)	764	488
Federal Home Loan Bank stock	9	11	20
Short-term investments	181	(130)	51
Total earning assets	192	340	532
Interest-bearing liabilities:			
NOW accounts	91	(92)	(1)
Money market accounts	13	—	13
Savings accounts	90	(298)	(208)
Time deposits	(212)	(539)	(751)
Short-term borrowings	12	2	14
Long-term borrowings	32	(10)	22
Total interest-bearing liabilities	26	(937)	(911)
Net interest income – tax-equivalent	$ 166	$ 1,277	$ 1,433

Net Interest Income.

Net interest income is the difference between interest income on earning assets and interest expense on interest-bearing liabilities. Net interest income on a tax-equivalent basis for the nine months ended September 30, 2010 was $6.9 million, an increase of $1.4 million or 26.4% when compared to the nine months ended September 30, 2009. Overall, the net interest margin (tax-equivalent net interest income divided by average earning assets) increased from 2.90% for the nine months ended September 30, 2009, to 3.42% for the nine months ended September 30, 2010. As shown in the table above, the increase in net interest income during the respective periods can be attributed primarily to the impact of interest rate changes, as the benefit of lower funding costs was the primary driver in the margin increase and the increase in net interest income.

Total average earning assets increased from $251.8 million during the 2009 period to $269.6 million during the 2010 period. The growth in average earning assets was primarily in lower yielding short-term investments (up $15.2 million) and securities (up $9.4 million), while the loan portfolio decreased by $7.0 million due primarily to paydowns in residential real estate loans and construction and land loans. Despite the decrease in the average balance of the loan portfolio during the two periods, the average yield on the loan portfolio increased from 5.47% during the 2009 period

to 6.00% during the 2010 period. This increase is generally attributable to (i) the payoff of lower-yielding residential real estate loans; (ii) rate increases realized on our construction and land loan portfolio; and (iii) new originations during the 2010 period at generally higher rates than the average rate of the portfolio during the 2009 period. The average yield earned on securities and short-term investments decreased from 2009 to 2010, reflecting the overall lower level of market interest rates during the 2010 period.

With respect to interest-bearing liabilities, due to the continued low level of market interest rates during the 2010 period, Fort Orange was able to reduce its funding costs principally through the repricing of deposit products. The average rate paid on NOW accounts and savings accounts decreased by 45 basis points ("bp", a basis point being 0.01%) and 60 bp, respectively, from the 2009 period to the 2010 period. In addition, as higher-rate time deposits matured, they were replaced with new time deposits at lower rates, leading to a drop of 90 bp in the average rate paid on time deposits during the comparable periods. In addition, the average balance of demand deposits increased from $19.5 million during the 2009 period to $23.0 million during the 2010 period, which helped to increase the net interest margin due to the non-interest-bearing nature of these deposits.

Provision for Loan Losses.

Fort Orange makes a monthly determination as to an appropriate provision for loan losses from earnings necessary to maintain an allowance for loan losses that is adequate based on the estimated inherent risk of loss in the loan portfolio. Management's evaluation is based upon a continuing review of the loan portfolio, which includes factors such as the risk characteristics of individual loans, net loan charge-off or recovery experience, delinquency rates, the overall size and composition of the loan portfolio, and local and general economic conditions.

The provision for loan losses was $1.3 million for the nine months ended September 30, 2010, up $365,000 from the $885,000 recorded during the comparable 2009 period. The increase in the provision during the first nine months of 2010 as compared to 2009 is reflective of the continued sluggish economic environment and its impact on certain borrowers, the increase in non-performing loans during the 2010 period, and management's assessment of the increased risk of loss in the loan portfolio.

Management reviews the allowance for loan losses monthly and makes provisions for loan losses, when necessary, in order to maintain the adequacy of the allowance. Management believes the allowance for loan losses is adequate to cover risks inherent in Fort Orange's loan portfolio at September 30, 2010. However, there can be no assurance that Fort Orange will not have to increase its provision for loan losses in the future as a result of changes in economic conditions or for other reasons, which could adversely affect Fort Orange's results of operations.

Non-Interest Income.

Total non-interest income was $441,000 for the nine months ended September 30, 2010, down $176,000 from the $617,000 realized during the comparable 2009 period. Non-interest income is comprised primarily of service charges on deposit accounts, net gains or losses on sales of securities, and items of other income (for example, ATM and debit card fees, merchant credit card processing residuals, wire transfer fees, and safe deposit box rentals). During the 2009 period, non-interest income also included a net gain of $121,000 realized on the termination of a branch lease and the related disposal of the leasehold improvements, furniture, fixtures and equipment. Fort Orange realized $280,000 in gains on sales of securities during the 2010 nine-month period, as compared to $360,000 in such gains during the 2009 period.

Non-Interest Expenses.

Total non-interest expenses were $4.6 million for the nine months ended September 30, 2010, up $252,000 from $4.3 million during the comparable 2009 period. The primary component of non-interest expenses is salaries and benefits, which represented 50.8% of total non-interest expenses during the 2010 period and 51.9% during the 2009 period. Salaries and benefits were $2.3 million for the 2010 period, up $84,000 or 3.7% from the 2009 period. The increase can be attributable primarily to additional personnel costs associated with the opening of a new branch location in Slingerlands, New York during January of 2010.

Occupancy expenses were $522,000 for the nine months ended September 30, 2010, up $75,000 or 16.8% from the comparable 2009 period. This increase can be attributed primarily to the new branch location opened in early 2010, and the closing of a branch location in September 2010, which required the accrual of the estimated present value of the remaining contractual lease payments.

Information technology expenses were $245,000 for the 2010 nine-month period, up $72,000 or 41.6% from the 2009 period. During late 2009, Fort Orange implemented several enhancements to its online banking platform, which was the primary driver in the information technology expense increase from period-to-period.

FDIC deposit insurance premiums and assessments were $259,000 for the 2010 period, down $93,000 or 26.4% from the 2009 period. During the second quarter of 2009, the FDIC charged all banks with a special assessment equal to 5 bp of total assets less Tier 1 capital. For Fort Orange, this special assessment was equal to $117,000, which increased expenses during the 2009 nine-month period. FDIC deposit insurance premiums continue to be elevated from historical levels due to assessment rate increases enacted by the FDIC to recapitalize the Deposit Insurance Fund as a result of recent bank failures. The level of FDIC deposit insurance premiums and assessments is largely out of the control of Fort Orange and there can be no assurance that additional assessment rate increases or special assessments will not be required by the FDIC in future periods.

Other expenses were $668,000 for the first nine months of 2010, up $101,000 or 17.8% from the comparable 2009 period. The increase was due to a variety of factors including: (i) an increase in correspondent bank fees due to the continued processing of paper check items until September 2010; (ii) a net loss of $27,000 on the disposal of leasehold improvements, furniture, fixtures and equipment as a result of the branch closing in September 2010; (iii) increases in advertising costs; and (iv) an increase in charitable contributions.

Income Tax Expense.

Income tax expense increased from period-to-period primarily as a result of the increase in income before taxes. The effective tax rate was 38.6% for the 2010 period, down from 40.2% for the 2009 period. The decrease in the effective tax rate is attributed primarily to the increase in tax-exempt securities income, as well as the increase in income before taxes, which diluted the impact of certain non-deductible expenses.

Comparison of Financial Condition at December 31, 2009 and 2008.

This discussion provides information concerning changes in the consolidated financial condition of Fort Orange Financial Corp. and subsidiaries from December 31, 2008 to December 31, 2009. This discussion is intended to supplement and should be reviewed in conjunction with the consolidated financial statements, related notes and selected financial data presented elsewhere herein.

Total Assets.

Total assets increased by $38.0 million from December 31, 2008 to December 31, 2009. Increases in cash and cash equivalents (up $51.4 million) were partially offset by decreases in loans (down $12.9 million) and securities (down $1.8 million).

Cash and Cash Equivalents.

Total cash and cash equivalents were $56.2 million at December 31, 2009, up $51.4 million from year-end 2008. As the overall financial crisis and economic recession continued during 2009, Fort Orange experienced a substantial increase in deposits, as customers sought a safe haven for their funds. Due to reduced demand from customers for

loans during 2009 as compared to the previous several years, the excess liquidity as a result of the deposit growth was placed in short-term investments, including interest-bearing deposits at other banks (primarily the Federal Reserve Bank of New York).

Securities.

Fort Orange maintains a portfolio of securities to enhance income, manage liquidity needs, and fulfill pledging requirements. Management determines the appropriate classification of securities at the time of purchase. If management has the positive intent and ability to hold debt securities to maturity, they are classified as securities held to maturity and carried at cost, adjusted for amortization of premiums and accretion of discounts using an effective interest method. If securities are purchased for the purpose of selling them in the near term, they are classified as trading securities and are reported at fair value with unrealized holding gains and losses reflected in current earnings. All other debt and marketable equity securities are classified as securities available for sale and are reported at fair value, with net unrealized gains or losses reported, net of income taxes, in accumulated other comprehensive income or loss. At December 31, 2009 and 2008, and during the years then ended, the Company did not hold any securities considered to be trading securities.

The securities portfolio at December 31, 2009 was comprised of U.S. agency securities, mortgage-backed securities, collateralized mortgage obligations, and loan pools guaranteed by the Small Business Administration (“SBA”). Securities available for sale and securities held to maturity decreased by $910,000 and $867,000, respectively, during 2009. Given the expectation during the second half of 2009 that short-term interest rates would increase at some point during 2010, management and the ALCO made the decision to keep Fort Orange’s excess liquidity in short-term investments, as opposed to investing the funds in longer-term securities. Therefore, securities balances were fairly flat from year-end 2008 to year-end 2009.

The following table sets forth the amortized cost and estimated fair value of Fort Orange’s securities available for sale and securities held to maturity at the dates indicated:

	At December 31,					
	2009		2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale:						
U.S. agency securities	$—	$—	$1,249	$1,265	$5,807	$5,803
Agency mortgage-backed securities	10,300	10,536	16,605	16,975	7,995	8,018
Agency collateralized mortgage obligations	10,738	10,856	5,646	5,777	4,303	4,351
Private collateralized mortgage obligations	1,273	1,247	1,883	7,796	2,263	2,222
Corporate debt securities	—	—	—	—	—	—
SBA guaranteed loan pools	2,278	2,264	—	—	—	—
Total	$24,589	$24,903	$25,383	$25,813	$20,368	$20,394
Securities held to maturity:						
U.S. agency securities	$1,540	$1,598	$2,045	$2,077	$—	$—
Agency collateralized mortgage obligations	1,179	1,200	1,541	1,537	—	—
Municipal securities	—	—	—	—	—	—
Total	$2,719	$2,798	$3,586	$3,614	$—	$—

The following table sets forth certain information regarding the carrying value (fair value in the case of securities available for sale and amortized cost in the case of securities held to maturity), the weighted-average yields (based on amortized cost), and contractual maturities of securities available for sale and securities held to maturity at December 31, 2009. Mortgage-backed securities, collateralized mortgage obligations and SBA guaranteed loan pools are included in the table based on final contractual maturity. Actual maturities will differ from contractual maturities due to prepayments on loans underlying asset-backed securities and the right of issues to call or prepay obligations with or without prepayment penalties.

At December 31, 2009	One Year or Less		More Than One Year to Five Years		More Than Five Years to Ten Years		More Than Ten Years		Total	
(Dollars in thousands)	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield
Securities available for sale:										
Agency mortgage-backed securities	$ 380	3.89 %	$ 385	3.85 %	$ —	—	$ 9,771	4.23 %	$ 10,536	4.21 %
Agency collateralized mortgage obligations	—	—	—	—	1,356	4.44 %	9,500	4.37 %	10,856	4.38 %
Private collateralized mortgage obligations	—	—	—	—	323	4.47 %	924	4.58 %	1,247	4.55 %
SBA guaranteed loan pools	—	—	—	—	—	—	2,264	0.82 %	2,264	0.82 %
Total	$ 380	3.89 %	$ 385	3.85 %	$ 1,679	4.45 %	$ 22,459	3.96 %	$ 24,903	3.99 %
Securities held to maturity:										
U.S. agency securities	$ —	—	$ 1,540	3.85 %	$ —	—	$ —	—	$ 1,540	3.85 %
Agency collateralized mortgage obligations	—	—	484	3.82 %	—	—	695	3.60 %	1,179	3.69 %
Total	$ —	—	$ 2,024	3.84 %	$ —	—	$ 695	3.60 %	$ 2,719	3.78 %

Loans.

Loans outstanding totaled $198.6 million at December 31, 2009, down $12.9 million from year-end 2008. The primary decreases were in construction and land loans (down $16.7 million), residential real estate loans (down $6.5 million) and commercial loans and leases (down $6.3 million). These decreases were partially offset by an increase in commercial real estate loans (up $15.3 million).

The decrease in construction and land loans was due primarily to the reduction of our credit-enhanced construction loan pools, which decreased by $17.1 million during 2009. Although the payment performance of these pools has been good, management determined in late 2008 that our exposure to this product type should be reduced. After some discussion with our financing partner, we put together a plan for significantly paying down the balance during 2009 through a combination of mandatory amortization and permanent loan takeouts.

During 2009, due to the historically low interest rate environment, many homeowners chose to refinance their mortgage loans, leading to a substantial increase in prepayments in our residential real estate portfolio. Borrowers' general preference for longer-term, fixed rate loans, combined with our loan pricing and duration requirements, led to the decrease in our residential real estate portfolio. We did purchase $6.8 million of residential real estate loans during 2009, primarily during the second half of the year. However, these purchases did not fully offset the substantial level of prepayments experienced throughout 2009.

Commercial loans and leases experienced a net decrease during 2009 despite a strong level of new originations by Fort Orange. Commercial loans and leases are comprised of lines of credit; term, time and demand loans; owner-occupied commercial real estate loans where 50% or more of the underlying property securing the loan is occupied by the borrower; and operating leases secured primarily by commercial vehicles (mainly delivery trucks). As the economic environment remained weak during 2009, many commercial borrowers looked to deleverage and reduce debt, leading to paydowns on lines of credit and accelerated repayments of term debt.

Commercial real estate lending is a core competency of Fort Orange and the increase in this loan product type during 2009 reflected continued strong originations, as many other lenders de-emphasized this product class.

The following table shows the composition of Fort Orange's loan portfolio as of the dates indicated:

	At December 31,									
	2009		2008		2007		2006		2005	
(Dollars in thousands)	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Commercial	$69,003	34.8 %	$75,294	35.5 %	$63,667	34.1 %	$55,305	33.3 %	$40,314	34.2 %
Commercial real estate	59,011	29.8 %	43,704	20.7 %	38,473	20.6 %	37,182	22.4 %	34,796	29.6 %
Construction and land	28,063	14.1 %	44,777	21.2 %	41,422	22.2 %	30,273	18.3 %	14,526	12.4 %
Residential real estate	34,993	17.6 %	41,473	19.6 %	37,999	20.3 %	38,927	23.5 %	24,647	21.0 %

	At December 31,									
	2009		2008		2007		2006		2005	
(Dollars in thousands)	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Home equity	7,223	3.6 %	5,825	2.8 %	4,905	2.6 %	3,798	2.3 %	3,069	2.6 %
Consumer	282	0.1 %	359	0.2 %	292	0.2 %	331	0.2 %	246	0.2 %
Total loans receivable	198,575	100.0%	211,432	100.0%	186,758	100.0%	165,816	100.0%	117,598	100.0%
Allowance for loan losses	(2,113)		(1,930)		(1,715)		(1,510)		(1,397)	
Net loans receivable	$196,462		$209,502		$185,043		$164,306		$116,201	

Note: net deferred loan fees and costs are included within the respective loan categories.

The following table sets forth certain information as of December 31, 2009 regarding the amount of loans maturing in our portfolio. All loans are included in the period in which they contractually mature.

	At December 31, 2009				
(Dollars in thousands)	One Year or Less	More Than One Year to Five Years	More Than Five Years	Net Deferred Costs (Fees)	Total
Commercial	$ 27,404	$ 25,170	$ 16,494	$ (65)	$ 69,003
Commercial real estate	10,256	21,403	27,470	(118)	59,011
Construction and land	22,800	3,622	1,672	(31)	28,063
Residential real estate	—	—	34,790	203	34,993
Home equity	—	522	6,586	115	7,223
Consumer	99	182	—	1	282
Total	$ 60,559	$ 50,899	$ 87,012	$ 105	$ 198,575

The following table sets forth the dollar amount of all loans at December 31, 2009 that have a contractual maturity subsequent to December 31, 2010, and have either fixed interest rates or floating/adjustable interest rates. The amounts below exclude any net deferred loan origination fees or costs.

(Dollars in thousands)	Fixed Rates	Floating or Adjustable Rates	Total
Commercial	$ 24,617	$ 17,047	$ 41,664
Commercial real estate	34,204	14,669	48,873
Construction and land	3,524	1,770	5,294
Residential real estate	16,125	18,665	34,790
Home equity	245	6,863	7,108

Consumer		135		47		182
Total	$	78,850	$	59,061	$	137,911

Asset Quality.

Non-performing loans totaled $1.4 million, or 0.73% of total loans, at December 31, 2009, down from $1.7 million, or 0.78% of total loans, at December 31, 2008. As of year-end 2009, 68% of the balance of non-performing loans was comprised of residential real estate loans. As of year-end 2008, 55% of the balance of non-performing loans was comprised of commercial leases.

The following table sets forth information with respect to Fort Orange's non-performing assets as of the dates indicated:

	At December 31,				
(Dollars in thousands)	2009	2008	2007	2006	2005
Non-accrual loans	$1,445	$787	$765	$734	$668
Loans 90 days or more past due and still accruing	—	870	854	—	—
Troubled debt restructurings	—	—	—	—	—
Total non-performing loans	1,445	1,657	1,619	734	668
Other real estate owned	—	—	—	—	—
Total non-performing assets	$1,445	$1,657	$1,619	$734	$668
Non-performing loans as a percentage of total loans	0.73 %	0.78 %	0.87 %	0.44 %	0.57 %
Non-performing assets as a percentage of total assets	0.50 %	0.67 %	0.70 %	0.37 %	0.43 %

Loans are placed on non-accrual status when, in the judgment of management, the probability of collection of principal and/or interest is deemed to be insufficient to warrant further accrual. When a loan is placed on non-accrual status, previously accrued but unpaid interest is deducted from interest income. Fort Orange generally does not accrue interest on loans that are 90 days or more past due for the payment of principal and/or interest unless active collection efforts and/or the value of the collateral, if any, indicate that full recovery is probable. Payments received on non-accrual loans are generally applied to reduce the unpaid principal balance; however, interest on non-accrual loans may also be recognized as payments are received. Loans are returned to accrual status when all contractual principal and interest payments are brought current and future payments are reasonably assured.

Contractual interest on non-accrual loans at December 31, 2009 of approximately $90,000 was not recognized in interest income during the year ended December 31, 2009. The amount of interest on non-accrual loans at December 31, 2009 that was collected and recognized in interest income during 2009 was not significant.

In addition to the non-performing loans noted in the table above, Fort Orange has also identified approximately $4.8 million in potential problem loans at December 31, 2009. At Fort Orange, potential problem loans are typically defined as loans that are performing but are classified by Fort Orange's commercial loan rating system as "substandard." At December 31, 2009, potential problem loans consisted entirely of commercial, commercial real estate, and construction and land loans. Management cannot predict the extent to which economic conditions may worsen or where other factors may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on non-accrual status, become restructured, or require increased allowance coverage and additional provisions for loan losses.

Allowance for Loan Losses.

Fort Orange assumes lending and credit risks as a principal element of its business, and anticipates that credit losses will be experienced in the normal course of business. Accordingly, management makes a monthly determination as to an appropriate provision from earnings necessary to maintain an allowance for loan losses that is adequate for probable losses. Management's evaluation is based upon a continuing review of the loan portfolio, which includes factors such as the risk characteristics of individual loans, net loan charge-off or recovery experience, delinquency rates, the overall size and composition of the loan portfolio, and local and general economic conditions.

The allowance for loan losses totaled $2.1 million, or 1.06% of total loans, at December 31, 2009, as compared to $1.9 million, or 0.91% of total loans, at year-end 2008. The allowance for loan losses represented 146.2% of non-performing loans at year-end 2009, as compared to 116.5% of non-performing loans at December 31, 2008. The increase in the allowance during 2009 both in dollars and as a percentage of the loan portfolio was reflective primarily of the weak economic environment and the increase in net loan charge-offs during 2009.

Management reviews the allowance for loan losses monthly and makes provisions for loan losses, when necessary, in order to maintain the adequacy of the allowance. Management believes the allowance for loan losses is adequate to cover risks inherent in Fort Orange's loan portfolio at December 31, 2009. However, there can be no assurance that Fort Orange will not have to increase its provision for loan losses in the future as a result of changes in economic conditions or for other reasons, which could adversely affect Fort Orange's results of operations.

The following table summarizes the activity in the allowance for loan losses during the past five fiscal years:

	For the Years Ended December 31,				
(Dollars in thousands)	2009	2008	2007	2006	2005
Balance at beginning of year	$1,930	$1,715	$1,510	$1,397	$1,323
Provision for loan losses	1,405	455	250	150	55
Charge-offs:					
Commercial	1,281	300	128	30	212
Commercial real estate	—	—	—	35	7
Home equity	—	—	—	47	—
Consumer	—	—	—	20	38
Total charge-offs	1,281	300	128	132	257
Recoveries:					
Commercial	58	31	73	90	216
Commercial real estate	—	—	—	3	—
Home equity	—	28	6	—	44
Consumer	1	1	4	2	16
Total recoveries	59	60	83	95	276
Net charge-offs (recoveries)	1,222	240	45	37	(19)
Balance at end of year	$2,113	$1,930	$1,715	$1,510	$1,397
Total loans	$198,575	$211,432	$186,758	$165,816	$117,598
Allowance for loan losses as a percentage of total loans	1.06%	0.91%	0.92%	0.91%	1.19%
Allowance for loan losses as a percentage of non-performing loans	146.2%	116.5%	105.9%	205.7%	209.1%
Ratio of net charge-offs (recoveries) to average loans outstanding during the year	0.61%	0.13%	0.03%	0.03%	(0.02%)

The following table sets forth the allocation of the allowance for loan losses by loan category for the periods indicated. This allocation is based on management's assessment, as of a given point in time, of the risk characteristics of each of the component parts of the total loan portfolio and is subject to changes as and when the risk factors of each such component part change. The allocation is neither indicative of the specific amounts or the loan categories in which future charge-offs may be taken, nor is it an indicator of future loss trends. The allocation of the allowance to each category for purposes of this table does not restrict the use of the allowance to absorb losses in any other category.

	At December 31,									
	2009		2008		2007		2006		2005	
(Dollars in thousands)	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
Commercial, commercial real	$1,472	78.7%	$1,466	77.4%	$1,321	76.9%	$1,125	74.0%	$976	76.2%

estate and construction and land loans														
Residential real estate	308	17.6	%	231	19.6	%	224	20.3	%	196	23.5	%	122	21.0	%
Home equity	220	3.6	%	161	2.8	%	118	2.6	%	95	2.3	%	55	2.6	%
Consumer	17	0.1	%	33	0.2	%	24	0.2	%	39	0.2	%	31	0.2	%
Total	2,017	100.0	%	1,891	100.0	%	1,687	100.0	%	1,455	100.0	%	1,184	100.0	%
Unallocated	96			39			28			55			213		
Total allowance for loan losses	$2,113			$1,930			$1,715			$1,510			$1,397		

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Other Assets.

Other assets totaled $1.9 million at December 31, 2009, as compared to $529,000 at year-end 2008. On December 30, 2009, Fort Orange was required by the FDIC to make a payment in the amount of $1.2 million equal to the FDIC's estimate of the next 13 quarters of deposit insurance assessments. This prepaid amount is available to offset future required cash payments of deposit insurance premiums by Fort Orange. If any amount remains unused after collection of the deposit premiums due on June 30, 2013, it will be returned to Fort Orange by the FDIC.

Deposits.

Total deposits were $222.3 million at December 31, 2009, up $34.7 million or 18.5% from year-end 2008. Demand deposits, NOW accounts, money market accounts and savings accounts all experienced increases during 2009. The balance of NOW accounts at year-end 2009 included one $14.3 million account that was almost completely withdrawn during the first six months of 2010. Given the inflow of core deposit accounts during 2009, we were able to let higher-priced time deposits mature and either roll into lower-priced deposit accounts or be withdrawn. Partially as a result of this approach, total time deposits decreased by $8.0 million during 2009. While a certain amount of the growth in core deposits during 2009 was a reflection of customers' preferences to place funds in bank accounts rather than to invest these funds in the stock market or other alternative investments, we believe that our business development and sales initiatives also helped to boost deposits during 2009, as over 1,000 new accounts were opened during the year.

The following table summarizes the average amount of and average rate paid on each of the following deposit categories for the periods indicated:

	For the Year Ended December 31,					
	2009		2008		2007	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	($ in thousands)					
Demand deposits	$20,057	— %	$18,207	— %	$16,565	— %
NOW accounts	24,997	1.27 %	16,302	2.30 %	11,348	2.47 %
Money market accounts	8,712	1.01 %	11,694	1.97 %	15,760	3.74 %
Savings accounts	61,211	1.52 %	59,609	2.84 %	66,493	4.02 %
Time deposits	85,137	3.44 %	70,100	4.24 %	70,368	4.95 %
Total	$200,114	2.13 %	$175,912	3.00 %	$180,534	3.89 %

The following table summarizes the maturities of time deposits of $100,000 and over as of December 31, 2009:

Maturity period:	($ in thousands)
Three months or less	$ 10,703
Over three months through six months	5,948
Over six months through twelve months	14,910
Over twelve months	18,755
Total	$ 50,316

Borrowings.

Total borrowings were $41.4 million at December 31, 2009, up $2.9 million from year-end 2008. During 2009, Fort Orange borrowed $9.3 million in longer-term advances from FHLB to help extend the duration of its interest-bearing

liabilities based on the expectation for higher rates in the future. These new longer-term advances more than offset the $5.8 million decrease in the FHLB overnight line of credit from year-end 2008 to year-end 2009. FHLB advances (excluding the overnight line of credit) totaled $35.7 million at December 31, 2009, as compared to $28.7 million at year-end 2008.

The following table sets forth certain information with respect to short-term borrowings for the periods indicated:

	At or For the Year Ended December 31,		
	2009	2008	2007
	($ in thousands)		
Short-Term Lines of Credit:			
Balance at end of year	$ —	$ 5,840	$ 3,000
Maximum month-end balance	5,800	13,320	6,560
Average balance during the year	1,279	2,400	799
Weighted-average interest rate at end of year	—	0.44 %	4.11 %
Weighted-average interest rate during the year	0.47 %	1.82 %	5.45 %
Repurchase Agreements:			
Balance at end of year	$ 5,761	$ 4,007	$ 2,989
Maximum month-end balance	5,761	6,182	4,246
Average balance during the year	4,187	2,960	1,761
Weighted-average interest rate at end of year	0.33 %	0.34 %	3.27 %
Weighted-average interest rate during the year	0.31 %	1.45 %	3.75 %

Stockholders' Equity.

Total stockholders' equity was $21.5 million at year-end 2009, up $667,000 or 3.2% from year-end 2008. The overall increase is due principally to $770,000 of earnings that were retained during the year, partially offset by an increase of $81,000 in treasury stock and a $64,000 decrease in accumulated other comprehensive income, which represents the net unrealized gains on securities available for sale, net of tax. Stockholders' equity as a percentage of total assets was 7.51% at December 31, 2009, as compared to 8.39% at year-end 2008. The decrease in this ratio is due principally to the 15.3% increase in total assets during the year, a good portion of which was attributable to the large, short-term NOW account that existed at year-end 2009. Book value per common share was $5.80 at December 31, 2009, up from $5.61 at December 31, 2008 (as adjusted to give effect to the 5% common stock dividend distributed on May 14, 2010).

Capital provides the foundation for future growth and profitability for Fort Orange and Capital Bank. At December 31, 2009, Capital Bank's Tier 1 leverage ratio was 7.62% versus 8.41% at December 31, 2008. The total capital to risk-weighted assets ratio at December 31, 2009 was 11.88% compared to 11.02% at December 31, 2008. The decrease in the Tier 1 leverage ratio during the year can be attributed primarily to the significant increase in total assets, which outpaced the growth in capital. However, the increase in the total risk-based capital ratio reflects both the growth in capital and the shift in asset composition, as loans (which generally have a higher risk-weighting of 50% - 100%) decreased and interest-bearing deposits at other banks (primarily deposits at the Federal Reserve Bank of New York, which have a 0% risk-weighting) increased. All of Capital Bank's capital ratios at December 31, 2009 exceeded the minimum regulatory levels, and place Capital Bank in the "well-capitalized" category according to regulatory standards.

Interest Rate Risk.

Interest rate risk is the primary market risk affecting Fort Orange. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of Fort Orange's business activities. Interest rate risk is defined as an exposure to a movement in interest rates that could have an adverse effect on net interest income. Net interest income is susceptible to interest rate risk to the degree that interest-bearing liabilities mature or reprice on a different basis than earning assets When interest-bearing liabilities mature or reprice

more quickly than earning assets in a given period, a significant increase in market rates could adversely affect net interest income. Similarly, when earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income.

Fort Orange utilizes an Asset and Liability Committee (“ALCO”), which generally meets monthly, to review, among other items, Fort Orange’s interest rate sensitivity on an ongoing basis and to prepare strategies to limit exposure to interest rate risk. One primary objective of the ALCO is to maximize Fort Orange’s net interest income while maintaining a level of risk appropriate to Fort Orange’s business focus, operating environment, capital, liquidity requirements and performance objectives. The ALCO also reviews Fort Orange’s balance sheet composition, liquidity, capital position, cash flow needs, maturities of securities, loans, deposits and borrowings, and current market conditions and interest rates. The ALCO also has input with respect to deposit pricing decisions. Notwithstanding Fort Orange’s interest rate risk management activities, the potential for changing interest rates is an uncertainty that can have an adverse effect on net interest income and net income.

In adjusting Fort Orange’s asset/liability position, management and the ALCO attempt to manage interest rate risk while minimizing net interest margin compression. At times, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, management and ALCO may determine to increase Fort Orange’s interest rate risk position somewhat in an attempt to increase its net interest margin.

Fort Orange’s primary tool for measuring and monitoring interest rate risk is an asset/liability simulation model, which is prepared quarterly. The model is run first based on: (i) the current balance sheet; (ii) a projected balance sheet one year in the future; and (iii) an interest rate forecast prepared by management. Additional models are then run reflecting instantaneous parallel interest rate shocks up or down. Fort Orange examines projected changes to net interest income and the economic value of equity assuming various rising or falling interest rate scenarios. The results of the simulation model are reported to both the ALCO and the board of directors on a quarterly basis.

The following table summarizes the estimated percentage change in net interest income in various rising and falling interest rate scenarios over a 12-month period from the forecasted net interest income under management’s interest rate scenario using the December 31, 2009 balance sheet position:

Interest Rate Sensitivity Analysis

Immediate Shock in Interest Rates (in basis points):		Percentage Change in Net Interest Income
–	100	(5.0)%
+	100	2.7%
+	200	5.5%
+	300	7.6%
+	400	4.7%

The asset/liability simulation model used by Fort Orange to measure, monitor and manage interest rate risk is based on various projections and assumptions. Some of the more critical projections and assumptions include: forecasted market interest rates; the future composition of the balance sheet; prepayment rates on loans and securities; estimated deposit withdrawal activity; and the level of deposit rates. Actual net interest income will likely differ, at times materially, from the estimates projected as a result of the simulation model.

Liquidity Risk.

Managing liquidity involves meeting the day-to-day needs of depositors and borrowers, taking advantage of investment opportunities, and providing a cushion against unforeseen cash flow needs.

Sources of liquidity for Fort Orange include cash and cash equivalents, securities, including monthly cash flows from amortizing securities such as mortgage-backed securities and collateralized mortgage obligations, and

maturing and repaying loans. Fort Orange also meets its liquidity needs by attracting deposits and utilizing borrowing arrangements with the FHLB, the Federal Reserve (through access to the discount window), and other correspondent banks. All borrowings with the FHLB, including short-term lines of credit and longer-term advances, must be collateralized by securities, qualifying loans and/or FHLB stock under a blanket pledge agreement with the FHLB. Based on the amount of specific collateral pledged, the Bank could have borrowed a maximum of $48.2 million from the FHLB as of December 31, 2009, of which $35.7 million was outstanding.

Capital Bank also has a $3.0 million unsecured line of credit available with a correspondent financial institution. Fort Orange (the holding company only) has a $5.0 million secured line of credit available with a different financial institution. Fort Orange's line of credit is collateralized by its ownership in Capital Bank's stock. There were no advances outstanding on either of these lines of credit at December 31, 2009.

Fort Orange's sources of liquidity are deemed by management to be sufficient to fund outstanding loan commitments and meet other obligations such as depositor withdrawals and borrowing maturities.

Comparison of Results of Operations for the Years Ended December 31, 2009 and 2008.

Fort Orange earned net income of $770,000 or $0.21 per common share for the year ended December 31, 2009, as compared to $610,000 or $0.16 per common share for 2008. All share and per share information in this discussion and analysis has been retroactively adjusted to give effect to the 5% common stock dividend distributed on May 14, 2010. Therefore, there is a difference between the $0.21 and $0.16 per common share earned in 2009 and 2008, respectively, as adjusted and disclosed above, and the $0.22 and $0.17 per common share earned in 2009 and 2008, respectively, as shown in the audited consolidated financial statements and related notes contained elsewhere in this joint proxy statement/prospectus.

Return on average assets for the year ended December 31, 2009 was 0.29%, compared to 0.26% for 2008. Return on average equity for the year ended December 31, 2009 was 3.61%, compared to 3.00% for 2008.

Average Balances, Interest Income and Expense, and Average Yields and Rates.

The following table sets forth certain information relating to Fort Orange's average earning assets and average interest-bearing liabilities for the periods indicated. The yields and rates were derived by dividing interest income or interest expense by the average balance of assets or liabilities, respectively, for the periods shown. Tax-exempt income for the periods presented was insignificant and therefore no tax-equivalent adjustments have been made. Average balances were computed based on average daily balances. Non-accruing loans have been included in loan balances. The yield on securities available for sale and securities held to maturity is computed based upon amortized cost.

	Year Ended December 31, 2009			Year Ended December 31, 2008		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
	(Dollars in thousands)					
Earning Assets:						
Securities available for sale and securities held to maturity:						
Taxable	$28,150	$1,283	4.56 %	$24,917	$1,244	4.99 %
Loans:						
Commercial, commercial real estate and construction	155,530	8,910	5.65	144,891	8,896	6.06
Residential real estate	37,205	1,921	5.16	38,304	2,067	5.40
Home equity and consumer	7,127	247	3.47	5,381	269	5.00
Total loans	199,862	11,078	5.54	188,576	11,232	5.96
Federal Home Loan Bank stock	1,822	80	4.39	1,704	93	5.46
Short-term investments	25,845	477	1.85	13,844	478	3.45
Total earning assets	255,679	12,918	5.03	229,041	13,047	5.66
Cash and due from banks	6,120			3,227		
Allowance for loan losses	(2,069)			(1,790)		
Other assets	3,606			3,183		
Total assets	$263,336			$233,661		
Interest-Bearing Liabilities:						
NOW accounts	$24,997	$318	1.27 %	$16,302	$375	2.30 %
Money market accounts	8,712	88	1.01	11,694	230	1.97
Savings accounts	61,211	929	1.52	59,609	1,692	2.84
Time deposits	85,137	2,925	3.44	70,100	2,973	4.24
Total interest-bearing liabilities	180,057	4,260	2.37	157,705	5,270	3.34
Short-term borrowings	6,782	23	0.33	5,360	87	1.60
Long-term borrowings	33,322	1,152	3.41	30,407	1,099	3.56
Total interest-bearing liabilities	220,161	5,435	2.46	193,472	6,456	3.33
Demand deposits	20,057			18,207		
Other liabilities	1,768			1,664		
Total liabilities	241,986			213,343		
Stockholders' equity	21,350			20,318		
Total liabilities and equity	$263,336			$233,661		
Net interest income		$7,483			$6,591	
Net interest spread			2.57 %			2.33 %
Net interest margin			2.93 %			2.88 %

Volume and Rate Analysis.

The following table presents the extent to which changes in interest rates and changes in the volume of earning assets and interest-bearing liabilities have affected our interest income and interest expense during the year ended December 31, 2009, as compared to the year ended December 31, 2008. Information is provided in each major category with respect to: (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

Year Ended December 31, 2009 vs 2008

	Increase (Decrease) Due to		Total Increase/
	Volume	Rate	(Decrease)
	(Dollars in thousands)		
Earning assets:			
Securities	$ 152	$ (113)	$ 39
Loans	642	(796)	(154)
Federal Home Loan Bank stock	6	(19)	(13)
Short-term investments	288	(289)	(1)
Total earning assets	1,088	(1,217)	(129)
Interest-bearing liabilities:			
NOW accounts	152	(209)	(57)
Money market accounts	(49)	(93)	(142)
Savings accounts	44	(807)	(763)
Time deposits	571	(619)	(48)
Short-term borrowings	18	(82)	(64)
Long-term borrowings	101	(48)	53
Total interest-bearing liabilities	837	(1,858)	(1,021)
Net interest income	$ 251	$ 641	$ 892

Net Interest Income.

Net interest income is the difference between interest income on earning assets and interest expense on interest-bearing liabilities. Net interest income for the year ended December 31, 2009 was $7.5 million, an increase of $892,000 or 13.5% when compared to the year ended December 31, 2008. Overall, the net interest margin (net interest income divided by average earning assets) increased slightly from 2.88% for the year ended December 31, 2008 to 2.93% for the year ended December 31, 2009. As shown in the table above, the increase in net interest income during the respective periods can be attributed primarily to the impact of interest rate changes, as the benefit of lower funding costs was the primary driver in the margin increase and the increase in net interest income.

Total average earning assets increased from $229.0 million during 2008 to $255.7 million during 2009. The growth in average earning assets was evident in all significant asset categories, including short-term investments (up $12.0 million), loans (up $11.3 million), and securities ($3.2 million). However, total interest income was down $129,000 from year-to-year, as the impact of lower interest rates more than offset the impact of higher average balances.

With respect to interest-bearing liabilities, due to the reduction in market interest rates from 2008 to 2009, Fort Orange was able to reduce its funding costs through the repricing of deposit products and lower borrowing costs. As can be seen in the table above, the impact of the lower rate environment was the primary driver in the $1.0 million

reduction in interest expense from year-to-year. The average rates paid on NOW, money market and savings accounts decreased by 103 bp, 96 bp, and 132 bp, respectively, from 2008 to 2009. In addition, as higher-rate time deposits matured, they were replaced with new time deposits with lower rates, leading to a drop of 80 bp in the average rate paid on time deposits. The benefit from lower rates was partially offset by an increase in the average balance of interest-bearing liabilities, with the increases occurring primarily in average time deposits and NOW accounts. In addition, the average balance of demand deposits increased from $18.2 million during 2008 to $20.1 million during 2009, which helped to increase the net interest margin due to the non-interest-bearing nature of these deposits.

Provision for Loan Losses.

Fort Orange makes a monthly determination as to an appropriate provision for loan losses from earnings necessary to maintain an allowance for loan losses that is adequate based on the estimated inherent risk of loss in the loan portfolio. Management's evaluation is based upon a continuing review of the loan portfolio, which includes factors such as the risk characteristics of individual loans, net loan charge-off or recovery experience, delinquency rates, the overall size and composition of the loan portfolio, and local and general economic conditions.

The provision for loan losses was $1.4 million for the year ended December 31, 2009, up $950,000 from the $455,000 recorded during 2008. The increase in the provision from year-to-year was primarily reflective of the increase in net charge-offs from $240,000 during 2008 to $1.2 million during 2009. During 2009, Fort Orange incurred charge-offs totaling $957,000 on two specific credit relationships. At December 31, 2009, one of these credit relationships had been completely charged-off and the other had a remaining carrying balance of $125,000, which was fully reserved for in Fort Orange's allowance for loan losses analysis. Excluding these two charge-offs, net charge-offs for 2009 would have been comparable to 2008's level. In addition, the continued sluggish economic environment during 2009 and management's assessment of the increased risk of loss in the loan portfolio led to an increased allowance level as a percentage of total loans and non-performing loans at year-end 2009 as compared to year-end 2008.

Management reviews the allowance for loan losses monthly and makes provisions for loan losses, when necessary, in order to maintain the adequacy of the allowance. Management believes the allowance for loan losses is adequate to cover risks inherent in Fort Orange's loan portfolio at December 31, 2009. However, there can be no assurance that Fort Orange will not have to increase its provision for loan losses in the future as a result of changes in economic conditions or for other reasons, which could adversely affect Fort Orange's results of operations.

Non-Interest Income.

Total non-interest income was $916,000 for 2009, up $748,000 from the $168,000 realized during 2008. Non-interest income is comprised primarily of service charges on deposit accounts, net gains or losses on sales of securities, and items of other income (for example, ATM and debit card fees, merchant credit card processing residuals, wire transfer fees, and safe deposit box rentals). During 2009, non-interest income also included a net gain of $121,000 realized on the termination of a branch lease and the related disposal of the leasehold improvements, furniture, fixtures and equipment. Fort Orange also realized $607,000 in gains on sales of securities during 2009, as compared to only $8,000 in such gains during 2008. The gains on securities taken during 2009 helped to fund the additional provision for loan losses required as a result of the two significant charge-offs noted above.

Non-Interest Expenses.

Total non-interest expenses were $5.7 million for 2009, up $424,000 or 8.0% from $5.3 million during 2008. The primary component of non-interest expenses is salaries and benefits, which represented 51.7% of total non-interest expenses during 2009 and 53.0% during 2008. Salaries and benefits were $3.0 million for 2009, up $154,000 or 5.5% from 2008. The increase can be attributed primarily to additional personnel costs associated with the overall growth in total assets from year-to-year.

Occupancy expenses were $592,000 for 2009, down $41,000 or 6.5% from 2008. This decrease can be partially attributed to the relocation and down-sizing of our Clifton Park, New York branch during the second quarter of 2009, which led to a decrease in overall occupancy expenses related to this branch.

Information technology expenses were $251,000 for 2009, up $52,000 or 26.1% from 2008. During 2009, Fort Orange implemented several enhancements to its online banking platform, which was the primary driver in the

information technology expense increase from year-to-year.

FDIC deposit insurance premiums and assessments were $432,000 for 2009, up $292,000 or 208.6% from 2008. During the second quarter of 2009, the FDIC charged all banks with a special assessment equal to 5 bp of total assets less Tier 1 capital. For Fort Orange, this special assessment was equal to $117,000, which increased expenses during 2009. In addition, the increase in expense from year-to-year can be attributed to higher deposit insurance assessment rates mandated by the FDIC and higher levels of average deposit balances during 2009. FDIC deposit insurance premiums continue to be elevated from historical levels due to assessment rate increases enacted by the FDIC to recapitalize the Deposit Insurance Fund as a result of recent bank failures. The level of FDIC deposit insurance premiums and assessments is largely out of the control of Fort Orange and there can be no assurance that additional assessment rate increases or special assessments will not be required by the FDIC in future periods.

Income Tax Expense.

Income tax expense increased from 2008 to 2009 primarily as a result of the increase in income before taxes. The effective tax rate was 40.0% for 2009, almost identical to the 40.1% for 2008.

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FORT ORANGE FINANCIAL CORP. AND SUBSIDIARIES
Consolidated Balance Sheets

September 30, 2010 and December 31, 2009
(Unaudited)

	September 30, 2010			December 31, 2009		
	($ in thousands, except per share data)					
Assets						
Cash and due from banks	$	3,512		$	7,542	
Money market investments		2,000			2,000	
Interest-bearing deposits at other banks		29,265			46,702	
Total cash and cash equivalents		34,777			56,244	
Securities available for sale, at fair value		34,051			24,903	
Securities held to maturity (approximate fair value of $9,214 in 2010 and $2,798 in 2009)		9,057			2,719	
Federal Home Loan Bank of New York (“FHLB”) stock, at cost		1,697			1,883	
Loans receivable		189,638			198,575	
Allowance for loan losses		(3,151	)		(2,113	)
Net loans receivable		186,487			196,462	
Premises and equipment, net		955			875	
Accrued interest receivable		1,255			1,041	
Deferred taxes		997			654	
Other assets		1,596			1,887	
Total assets	$	270,872		$	286,668	
Liabilities and Stockholders’ Equity						
Liabilities:						
Deposits:						
Demand	$	23,217		$	23,177	
NOW accounts		30,419			42,743	
Money market accounts		12,056			12,074	
Savings accounts		69,743			64,074	
Time deposits ($100,000 or more)		46,859			50,316	
Other time deposits		27,885			29,874	
Total deposits		210,179			222,258	
Borrowings		36,522			41,437	
Accrued interest payable		329			522	
Other liabilities		1,201			921	
Total liabilities		248,231			265,138	
Commitments and contingent liabilities						
Stockholders’ equity:						
Preferred stock: Par value – $0.10; Authorized shares – 1,000,000; Issued and outstanding shares – None		—			—	
Common stock: Par value – $0.10; Authorized shares – 10,000,000; Issued shares – 3,742,303 in 2010 and 3,564,242 in 2009		375			357	
Additional paid-in capital		22,354			22,362	
Accumulated deficit		(281	)		(1,211	)

Treasury stock, at cost (41,239 shares in 2010 and 36,989 shares in 2009)		(205	)		(196	)
Directors' deferred stock units (5,516 units in 2010 and 5,485 units in 2009)		26			25	
Accumulated other comprehensive income		372			193	
Total stockholders' equity		22,641			21,530	
Total liabilities and stockholders' equity	$	270,872		$	286,668	

See accompanying notes to unaudited consolidated interim financial statements.

Fort Orange Financial Corp. and Subsidiaries
Consolidated Statements of Income

Nine Months Ended September 30, 2010 and 2009
(Unaudited)

	2010	2009
	($ in thousands, except per share data)	
Interest, dividend and fee income:		
Loans:		
Commercial, commercial real estate and construction	$ 7,364	$ 6,612
Residential real estate	1,173	1,455
Home equity and consumer	197	179
Total interest and fees on loans	8,734	8,246
Securities available for sale	660	916
Securities held to maturity	303	87
Federal Home Loan Bank of New York stock	73	53
Money market investments	333	309
Interest-bearing deposits at other banks	33	6
Total interest, dividend and fee income	10,136	9,617
Interest expense:		
Deposits	2,338	3,285
Borrowings	901	865
Total interest expense	3,239	4,150
Net interest income	6,897	5,467
Provision for loan losses	1,250	885
Net interest income after provision for loan losses	5,647	4,582
Non-interest income:		
Service charges on deposit accounts	88	82
Gain on sale of securities	280	360
Net gain on lease termination and disposal of premises and equipment	—	121
Other income	73	54
Total non-interest income	441	617
Non-interest expenses:		
Salaries and benefits	2,325	2,241
Occupancy expense	522	447
Equipment expense	225	234
Information technology	245	173
Audit, tax preparation and loan review fees	128	132
Consulting and legal fees	201	175
FDIC deposit insurance premiums and assessments	259	352
Other expenses	668	567
Total non-interest expenses	4,573	4,321
Income before taxes	1,515	878
Income tax expense	585	353

Net income	$	930	$	525
Earnings per common share:				
Basic	$	0.25	$	0.14
Diluted	$	0.25	$	0.14

See accompanying notes to unaudited consolidated interim financial statements.

Fort Orange Financial Corp. and Subsidiaries
Consolidated Statements of Changes in Stockholders' equity

Nine Months Ended September 2010 and 2009
(Unaudited)

($ in thousands)	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Directors' Deferred Stock Units	Accumulated Other Comprehensive Income	Total	Comprehensive Income
Balance at December 31, 2008	$ 356	$ 22,310	$ (1,981)	$ (115)	$ 36	$ 257	$ 20,863	
Net income	—	—	525	—	—	—	525	$ 525
Other comprehensive income, net of tax:								
Increase in net unrealized holding gains on securities available for sale (pre-tax $585)	—	—	—	—	—	356	356	356
Reclassification adjustment for net gains on sales of securities available for sale (pre-tax $360)	—	—	—	—	—	(221)	(221)	(221)
Other comprehensive income, net of tax								135
Comprehensive income								$ 660
Expense related to directors' deferred stock units	—	—	—	—	20	—	20	
Distribution of directors' deferred stock units (6,630 shares)	—	(1)	—	37	(36)	—	—	
Vesting of employee stock awards (8,637 shares)	1	(8)	—	6	—	—	(1)	
Expense related to options and employee stock awards	—	52	—	—	—	—	52	
	—	—	—	(126)	—	—	(126)	

Purchase of treasure stock (25,648 shares)								
Balance at September 30, 2009	$ 357	22,353	$ (1,456)	$ (198)	$ 20	$ 392	$ 21,468	
Balance at December 31, 2009	$ 357	$ 22,362	$ (1,211)	$ (196)	$ 25	$ 193	$ 21,530	
Net income	—	—	930	—	—	—	930	$ 930
Other comprehensive income, net of tax:								
Increase in net unrealized holding gains on securities available for sale (pre-tax $573)	—	—	—	—	—	351	351	351
Reclassification adjustment for net gains on sales of securities available for sale (pre-tax $280)	—	—	—	—	—	(172)	(172)	(172)
Other comprehensive income, net of tax								179
Comprehensive income								$ 1,109
Expense related to directors' deferred stock units	—	—	—	—	26	—	26	
Distribution of directors' deferred stock units (5,757 shares)	—	(4)	—	29	(25)	—	—	
Vesting of employee stock awards (6,668 shares)	—	(35)	—	35	—	—	—	
Expense related to options and employee stock awards	—	49	—	—	—	—	49	
Distribution of 5% stock dividend (178,061 shares; 1,768 treasury shares)	18	(18)	—	—	—	—	—	
Purchases of treasure stock (14,907 shares)	—	—	—	(73)	—	—	(73)	
Balance at September 30, 2010	$ 375	$ 22,354	$ (281)	$ (205)	$ 26	$ 372	$ 22,641	

See accompanying notes to unaudited consolidated interim financial statements.

Fort Orange Financial Corp. and Subsidiaries
Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2010 and 2009
(Unaudited)

	2010	2009
Cash flows from operating activities	($ in thousands)	
Net income	$ 930	$ 525
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,250	885
Depreciation and amortization expense on premises and equipment	172	167
Deferred tax benefit	(456)	(299)
Gain on sale of securities	(280)	(360)
Net loss (gain) on lease termination and disposal of premises and equipment	27	(121)
Net amortization of premiums and discounts on securities	180	51
Expense related to stock-based compensation	75	72
Net (increase) decrease in accrued interest receivable	(214)	48
Net decrease in other assets	291	36
Net decrease in accrued interest payable	(193)	(210)
Net increase in other liabilities	280	55
Net cash provided by operating activities	2,062	849
Cash flows from investing activities		
Purchases of securities available for sale	(21,654)	(16,420)
Proceeds from sales of securities available for sale	8,672	9,543
Proceeds from maturities and calls of securities available for sale	750	1,250
Proceeds from principal paydowns on securities available for sale	3,517	5,572
Purchases of securities held to maturity	(17,200)	(533)
Proceeds from maturities and calls of securities held to maturity	10,000	—
Proceeds from principal paydowns on securities held to maturity	821	1,130
Purchases of Federal Home Loan Bank of New York stock	(3,640)	(2,722)
Redemptions of Federal Home Loan Bank of New York stock	3,826	2,715
Purchases of residential real estate loans	(700)	(6,333)
Net loans repaid by customers	9,425	21,723
Purchases of premises and equipment	(279)	(273)
Proceeds from lease termination and sales of premises and equipment	—	450
Net cash (used in) provided by investing activities	(6,462)	16,102
Cash flows from financing activities		
Net (decrease) increase in deposits	(12,079)	12,910
Net (decrease) increase in overnight lines of credit and other short-term borrowings	(538)	362
Proceeds from FHLB long-term borrowings	—	7,000
Principal repayments of FHLB long-term borrowings	(4,377)	(2,109)
Purchases of treasury stock	(73)	(126)

Tax impact related to stock-based compensation		—		(1)
Net cash (used in) provided by financing activities		(17,067)		18,036
Net (decrease) increase in cash and cash equivalents		(21,467)		34,987
Cash and cash equivalents at beginning of period		56,244		4,883
Cash and cash equivalents at end of period	$	34,777	$	39,870
Supplemental cash flow information				
Interest paid	$	3,432	$	4,360
Income taxes paid	$	1,006	$	528
Supplemental disclosure of non-cash investing and financing activities				
Distribution of stock for directors' deferred stock units	$	25	$	36

See accompanying notes to unaudited consolidated interim financial statements.

Fort Orange Financial Corp. and Subsidiaries
Notes to Unaudited Consolidated Interim Financial Statements

September 30, 2010
(Unaudited)

(1) Organization

Fort Orange Financial Corp. (the “Holding Company”) was formed as a Delaware corporation on March 8, 2006 to serve as the bank holding company for Capital Bank & Trust Company (the “Bank”). Effective December 1, 2006, after receiving the required regulatory approvals from the New York State Banking Department (the “Banking Department”) and the Federal Reserve Bank of New York (the “FRB”), the Bank completed its reorganization into the holding company structure and became a wholly-owned subsidiary of Fort Orange Financial Corp. Each issued and outstanding share of common stock and preferred stock of the Bank was automatically converted into one share of common stock or preferred stock, respectively, of Fort Orange Financial Corp.

The Bank is a New York State-chartered financial institution that engages in commercial banking activities primarily in Albany and Saratoga counties and surrounding areas of New York State. The Bank’s primary customers are small to mid-size businesses, professionals, such as doctors, attorneys and accountants, and high net worth individuals. The Bank’s principal lending products are commercial real estate loans, construction and land loans, commercial loans, lines of credit and leases, residential real estate loans, home equity loans and lines of credit, and consumer installment loans and lines of credit. Deposit products include demand deposits, money market accounts, savings accounts and time deposits. The Bank is regulated by the Federal Deposit Insurance Corporation (“FDIC”) and the Banking Department. The Holding Company is regulated by the FRB.

(2) Basis of Presentation

The accompanying unaudited consolidated interim financial statements of Fort Orange Financial Corp. and subsidiaries (collectively, the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10-01 of Regulation S-X. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. All significant intercompany balances and transactions have been eliminated in consolidation. Prior-period amounts are reclassified when necessary to conform with the current year’s presentation. These reclassifications, if any, did not have a material effect on the operating results or financial position of the Company. The financial position and operating results of the Company as of and for the nine months ended September 30, 2010, are not necessarily indicative of the financial position and results of operations that may be expected in the future and should be read in conjunction with the Company’s annual audited consolidated financial statements contained in this joint proxy statement / prospectus.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2010, for items that should potentially be recognized or disclosed in these unaudited consolidated interim financial statements. The evaluation was conducted through the date these financial statements were

issued.

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(3) Stock Dividend

On April 8, 2010, the Company declared a 5% common stock dividend, which was distributed on May 14, 2010, to stockholders of record as of April 30, 2010. If the Company had accumulated profits (retained earnings), the Company would have transferred the fair market value of the shares issued from retained earnings to common stock and additional paid-in capital. Since the Company had an accumulated deficit at the date of the stock dividend, the par value of the shares issued was transferred from additional paid-in capital to common stock. All share and per share information has been retroactively adjusted to give effect to this stock dividend.

(4) Earnings Per Share

Basic earnings per share is calculated by dividing net income less dividends on convertible preferred stock (if any) by the weighted-average number of common shares outstanding during the period, including the stock units awarded under the Company's Stock Unit Plan for non-employee directors, which are considered to be contingently issuable shares.

Diluted earnings per share is computed in a manner similar to that of basic earnings per share except that the weighted-average number of common shares outstanding is increased to include the number of incremental common shares that would have been outstanding under the treasury stock method if all potentially dilutive common shares (such as convertible preferred stock, stock options and restricted stock) were issued or became vested during the reporting period.

The following table sets forth certain information regarding the calculation of basic and diluted earnings per share for the nine months ended September 30. All share and per share information has been retroactively adjusted to give effect to the 5% common stock dividend distributed on May 14, 2010.

		2010		2009
	(In thousands, except per share data)			
Net income	$	930	$	525
Weighted-average common shares outstanding, including stock units awarded under the Stock Unit Plan		3,710		3,717
Dilutive effect of outstanding stock options and stock awards		2		1
Weighted-average common shares outstanding, assuming dilution		3,712		3,718
Basic earnings per common share	$	0.25	$	0.14
Diluted earnings per common share	$	0.25	$	0.14

As of September 30, 2010, there were 285,711 stock options outstanding with a weighted-average exercise price of $5.70 that were excluded from the computation of diluted earnings per common share as their impact was

anti-dilutive. At that same date, there were also 51,043 nonvested stock awards outstanding with a weighted-average grant date fair value of $5.90 that were excluded from the computation of diluted earnings per common share as their impact was anti-dilutive.

(5) Comprehensive Income

Comprehensive income represents the sum of net income and items of other comprehensive income/loss, which are reported directly in stockholders' equity, net of tax, such as the change in the net unrealized gain or loss on securities available for sale. Accumulated other comprehensive income, which is a component of stockholders' equity, represents the net unrealized gain or loss on securities available for sale, net of tax.

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(6) Securities

The amortized cost, gross unrealized gains and losses and approximate fair value of securities at September 30, 2010 and December 31, 2009 are as follows:

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
	($ in thousands)			
Available for Sale:				
U.S. agency securities	$ 9,389	$ 133	$ —	$ 9,522
Agency mortgage-backed securities (1)	8,273	134	—	8,407
Agency collateralized mortgage obligations (1)	9,222	253	(3)	9,472
Private collateralized mortgage obligations (1)	954	26	—	980
Corporate debt securities	2,923	84	(1)	3,006
SBA guaranteed loan pools	2,683	1	(20)	2,664
Total securities available for sale	$ 33,444	$ 631	$ (24)	$ 34,051
Held to Maturity:				
U.S. agency securities	$ 4,218	$ 109	$ —	$ 4,327
Agency collateralized mortgage obligations (1)	649	11	—	660
Municipal securities	4,190	54	(17)	4,227
Total securities held to maturity	$ 9,057	$ 174	$ (17)	$ 9,214

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
	($ in thousands)			
Available for Sale:				
Agency mortgage-backed securities (1)	$ 10,300	$ 246	$ (10)	$ 10,536
Agency collateralized mortgage obligations (1)	10,738	159	(41)	10,856
Private collateralized mortgage obligations (1)	1,273	—	(26)	1,247
SBA guaranteed loan pools	2,278	—	(14)	2,264
Total securities available for sale	$ 24,589	$ 405	$ (91)	$ 24,903
Held to Maturity:				

U.S. agency securities	$ 1,540	$ 58	$ —	$ 1,598
Agency collateralized mortgage obligations (1)	1,179	21	—	1,200
Total securities held to maturity	$ 2,719	$ 79	$ —	$ 2,798

(1) All agency mortgage-backed securities, agency collateralized mortgage obligations and private collateralized mortgage obligations are backed by residential mortgage loans as the underlying collateral.

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The following table sets forth information with regard to securities with unrealized losses at September 30, 2010 and December 31, 2009, segregated according to the length of time the securities had been in a continuous unrealized loss position as of that date:

	September 30, 2010					
	Less Than 12 Months		12 Months or Greater		Total	
Security category	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	($ in thousands)					
Available for Sale:						
Agency collateralized mortgage obligations	$ 1,052	$ (3)	$ —	$ —	$ 1,052	$ (3)
Corporate debt securities	249	(1)	—	—	249	(1)
SBA guaranteed loan pools	2,059	(20)	—	—	2,059	(20)
Held to Maturity:						
Municipal securities	938	(17)	—	—	938	(17)
Total	$ 4,298	$ (41)	$ —	$ —	$ 4,298	$ (41)

	December 31, 2009					
	Less Than 12 Months		12 Months or Greater		Total	
Security category	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	($ in thousands)					
Available for Sale:						
Agency mortgage-backed securities	$ 1,025	$ (10)	$ —	$ —	$ 1,025	$ (10)
Agency collateralized mortgage obligations	2,967	(41)	—	—	2,967	(41)
Private collateralized mortgage obligations	781	(9)	466	(17)	1,247	(26)
SBA guaranteed loan pools	2,264	(14)	—	—	2,264	(14)
Total	$ 7,037	$ (74)	$ 466	$ (17)	$ 7,503	$ (91)

At September 30, 2010, the unrealized losses on the Company's securities were caused primarily by changes in market interest rates and widening of sector spreads between the date the respective securities were purchased and September 30, 2010. The unrealized losses relate to eight individual securities, all of which have investment grade credit ratings from nationally recognized rating agencies (defined as bearing a credit quality

rating of “Baa” or higher from Moody’s or “BBB” or higher from Standard and Poor’s). Because the unrealized losses are related primarily to changes in market interest rates and widening of sector spreads and are not necessarily related to the underlying credit quality of the issuers of the securities, coupled with the fact that the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before recovery of their amortized cost bases, which may be maturity, the Company does not consider any of these securities to be other-than-temporarily impaired at September 30, 2010.

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Shown below are the amortized cost and approximate fair value of debt securities as of September 30, 2010, by contractual maturity (excluding mortgage-backed securities, collateralized mortgage obligations and SBA guaranteed loan pools). Actual maturities will differ from contractual maturities because issuers may have the right to prepay obligations with or without prepayment penalties. In addition, issuers of certain securities may have the right to call obligations without prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Approximate Fair Value	Amortized Cost	Approximate Fair Value
	($ in thousands)			
Due in one year or less	$ —	$ —	$ —	$ —
Due after one through five years	6,291	6,415	2,272	2,354
Due after five through ten years	6,021	6,113	5,033	5,065
Due after ten years	—	—	1,103	1,135
Total	$ 12,312	$ 12,528	$ 8,408	$ 8,554

The Company received $8.7 million and $9.5 million in proceeds from the sale of securities available for sale during the nine months ended September 30, 2010 and 2009, respectively, realizing gross gains of $280,000 and $360,000. There were no losses in either nine month period during 2010 or 2009.

(7) Fair Value Measurements and Fair Value of Financial Instruments

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company adopted the guidance in the Fair Value Measurements and Disclosures topic of FASB ASC effective January 1, 2008. This guidance defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. The guidance provides a consistent definition of fair value, which focuses on the exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in the valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions. Fair value measurements are not adjusted for transaction costs. The adoption of the guidance in the Fair Value Measurements and Disclosures topic of FASB ASC had no impact on the amounts reported in the consolidated financial statements. The primary effect of adopting this guidance was to expand the required disclosures pertaining to the methods used to determine fair values.

The guidance in the Fair Value Measurements and Disclosures topic of FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1

measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the guidance are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

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A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following table sets forth the Company's financial assets and liabilities that are measured at fair value on a recurring basis. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		($ in thousands)		
At September 30, 2010:				
Assets:				
Securities available for sale	$ 34,051	$ —	$ 34,051	$ —
At December 31, 2009:				
Assets:				
Securities available for sale	$ 24,903	$ —	$ 24,903	$ —

Fair values for securities are based on quoted market prices or dealer quotes, where available. Where quoted market prices are not available, fair values are based on quoted market prices of comparable instruments with similar characteristics. When necessary, the Company utilizes "matrix" pricing from a third party vendor to determine fair values. Matrix prices are indicative values computed primarily or exclusively using computerized models based on inputs such as Treasury yields, swap rates, spreads, prepayment projections and other assumptions believed to be applicable to the classes of securities being valued.

The fair value guidance also requires disclosure of assets and liabilities measured and recorded at fair value on a nonrecurring basis. In accordance with the provisions of the impaired loan guidance, the Company had impaired loans with a carrying value of approximately $1.5 million and $468,000 at September 30, 2010 and December 31, 2009, respectively, for which the allocated allowance for loan losses was approximately $164,000 and $185,000, respectively. The Company generally uses the fair value of the underlying collateral to estimate the allowance for loan losses allocated to impaired loans. Fair value is generally determined based upon independent third party appraisals of the collateral, or discounted cash flows based upon the expected proceeds. Based on the valuation techniques used, the fair value measurements for impaired loans are classified as Level 3.

The Company also has the option to measure eligible financial assets, financial liabilities and Company commitments at fair value (i.e., the "fair value option"), on an instrument-by-instrument basis, that are not otherwise permitted to be accounted for at fair value under other accounting standards. The election to use the

fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Company commitment. Subsequent changes in fair value must be recorded in earnings. There are also presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The fair value option does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value and does not eliminate disclosure requirements included in other accounting standards. As of September 30, 2010 and December 31, 2009, the Company had not elected the fair value option for any eligible items.

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The Company is also required to disclose estimated fair values for its financial instruments. The definition of a financial instrument includes many of the assets and liabilities recognized in the Company's consolidated balance sheet, as well as certain off-balance sheet items.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected net cash flows, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the disclosed estimates of fair value.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Short-Term Financial Instruments
The fair value of certain financial instruments is estimated to approximate their carrying value because the remaining term to maturity or period to repricing of the financial instrument is less than 90 days. Such financial instruments include cash and cash equivalents, accrued interest receivable and accrued interest payable.

Securities Available for Sale and Securities Held to Maturity
Securities available for sale and securities held to maturity are financial instruments that are usually traded in broad markets. Fair values for securities are based on quoted market prices or dealer quotes, where available. Where quoted market prices are not available, fair values are based on quoted market prices of comparable instruments with similar characteristics. When necessary, the Company utilizes "matrix" pricing from a third party vendor to determine fair values. Matrix prices are indicative values computed primarily or exclusively using computerized models based on observable inputs such as Treasury yields, swap rates, spreads, prepayment projections and other assumptions believed to be applicable to the classes of securities being valued.

Federal Home Loan Bank of New York Stock
The fair value of Federal Home Loan Bank of New York stock is equal to its carrying amount (cost) since there is no readily available market value and the stock cannot be sold, but can be redeemed by the Federal Home Loan Bank of New York at cost.

Loans

For performing variable rate loans that reprice frequently, fair value is assumed to equal the carrying amount. Fair values for performing fixed rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms.

Estimated fair value for non-performing loans is based on estimated cash flows discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows and discount rates are judgmentally determined using available market information and specific borrower information.

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Deposits
The estimated fair value of deposits with no stated maturity, such as non-interest-bearing deposits, NOW accounts, money market accounts and savings accounts, is regarded to be the amount payable on demand (carrying value). The estimated fair value of time deposit accounts is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits with similar remaining maturities. The fair value estimates for deposits do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared with the cost of borrowing funds in the market.

Borrowings
The carrying amounts of repurchase agreements and other short-term borrowings approximate their fair values. Fair values for long-term borrowings (such as Federal Home Loan Bank of New York advances) are estimated using a discounted cash flow approach based on current market rates for similar borrowings.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates contained herein are not necessarily indicative of the amounts the Company could have realized in an actual sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective period-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end.

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The carrying amounts and estimated fair values of financial assets and liabilities as of September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	($ in thousands)			
Financial assets				
Cash and cash equivalents	$ 34,777	$ 34,777	$ 56,244	$ 56,244
Securities available for sale	34,051	34,051	24,903	24,903
Securities held to maturity	9,057	9,214	2,719	2,798
Federal Home Loan Bank of New York stock	1,697	1,697	1,883	1,883
Net loans receivable	186,487	198,038	196,462	205,302
Accrued interest receivable	1,255	1,255	1,041	1,041
Financial liabilities				
Deposits:				
Demand, NOW, money market and savings accounts	135,435	135,435	142,068	142,068
Time deposits	74,744	76,604	80,190	81,913
Borrowings	36,522	38,340	41,437	43,087
Accrued interest payable	329	329	522	522

The fair value of commitments to extend credit, unused lines of credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate commitments to extend credit and unused lines of credit, fair value also considers the difference between current levels of interest rates and the committed rates. Based upon the insignificant estimated fair values of commitments to extend credit, unused lines of credit and standby letters of credit, there are no significant unrealized gains or losses associated with these financial instruments.

(8) Guarantees

The Bank does not issue any guarantees that would require liability-recognition or disclosure, other than its standby letters of credit. Standby letters of credit are conditional commitments issued by the Company to guarantee payment on behalf of a customer and/or guarantee the performance of a customer to a third party. Standby letters of credit generally arise in connection with lending relationships. The credit risk involved in issuing these instruments is essentially the same as that involved in extending loans to customers. Contingent obligations under standby letters of credit totaled approximately $597,000 at September 30, 2010 and $961,000 at December 31, 2009 and represent the maximum potential future payments the Company could be required to make. Typically, these instruments have terms of twelve months or less and expire unused; therefore, the total

amounts do not necessarily represent future cash requirements. Each customer is evaluated individually for creditworthiness under the same underwriting standards used for commitments to extend credit and on-balance sheet instruments. Company policies governing loan collateral apply to standby letters of credit at the time of credit extension. Loan-to-value ratios will generally range from 50% for movable assets, such as inventory, to 100% for liquid assets, such as deposit accounts. The fair value of the Company's standby letters of credit at September 30, 2010 and December 31, 2009 was insignificant.

Fort Orange Financial Corp. and Subsidiaries
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(9) Definitive Merger Agreement

On October 14, 2010, Fort Orange Financial Corp. entered into an Agreement and Plan of Merger (the "Merger Agreement") with Chemung Financial Corporation ("CFC"), parent company of Chemung Canal Trust Company ("Chemung Canal"). Under the terms of the Merger Agreement, CFC will acquire the Company for approximately $29.3 million, based upon CFC's closing stock price on October 14, 2010.

The Merger Agreement provides that each issued and outstanding share of the Company's common stock will be converted into the right to receive, at the election of the shareholder, (i) 0.3571 shares of CFC common stock, (ii) cash equal to $7.50 per share, or (iii) a combination of stock for 75% of the shareholder's Fort Orange stock and cash for 25% of the shareholder's Fort Orange stock, subject to proration procedures detailed in the Merger Agreement, which provide that the aggregate consideration paid by CFC will be CFC common stock for 75% of the aggregate Fort Orange common stock and cash for 25% of the aggregate Fort Orange common stock. The merger consideration may be adjusted downward based on certain assets quality indicators of the Company specified in the Merger Agreement and also if the stock price of CFC rises to more than $25.20 per share.

Completion of the transaction is subject to receipt of all necessary federal and state regulatory approvals, approval of the Company's and CFC's shareholders, and satisfaction of other customary closing conditions stated in the Merger Agreement. The merger is expected to be completed in the first quarter of 2011.

CFC, headquartered in Elmira, New York, was incorporated in 1985 as the parent holding company of Chemung Canal, a full-service community bank with full trust powers. Chemung Canal, which was established in 1833, currently operates through 23 full-service offices in Chemung, Broome, Schuyler, Steuben, Tioga and Tompkins counties in New York, as well as in Bradford County, PA. CFC has total assets of approximately $1.0 billion.

(10) Recent Accounting Pronouncements

ASU 2010-20, Receivables: Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (Topic 310), was issued in July 2010. This update is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The amendments in this update affect all entities with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value. The update requires an entity to disclose: 1) the nature of credit risk inherent in the entity's portfolio of financing receivables; 2) how that risk is analyzed and assessed in arriving at the allowance for credit losses; and 3) the changes and reasons for those changes in the allowance for credit losses. For non-public entities, such as the Company, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. Implementing the guidance in this update will have a significant effect on the disclosures in our annual financial statements.

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ASU 2010-18, Receivables: Effect of a Loan Modification When the Loan is Part of a Pool That Is Accounted for as a Single Asset (Topic 310), was issued in April 2010. As a result of the amendments in this update, modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors. The amendments in this update do not require an entity to make additional disclosures. The amendments in this update are effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. The amendments are to be applied prospectively. Early application was permitted. Upon initial adoption of the guidance in this update, an entity may make a one-time election to terminate accounting for loans as a pool under Subtopic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. The adoption of this guidance did not have a material impact on the Company's financial position or results of operations.

Independent Auditors' Report

To the Board of Directors and Stockholders
of Fort Orange Financial Corp. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Fort Orange Financial Corp. and Subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fort Orange Financial Corp. and Subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Syracuse, New York
February 27, 2010

Fort Orange Financial Corp. and Subsidiaries
Consolidated Balance Sheets

December 31, 2009 and 2008

	2009	2008
	($ in thousands, except per share data)	
Assets		
Cash and due from banks	$ 7,542	$ 871
Money market investments	2,000	1,007
Interest-bearing deposits at other banks	46,702	3,005
Total cash and cash equivalents	56,244	4,883
Securities available for sale, at fair value	24,903	25,813
Securities held to maturity (approximate fair value of $2,798 in 2009 and $3,614 in 2008)	2,719	3,586
Federal Home Loan Bank of New York (“FHLB”) stock, at cost	1,883	1,780
Loans receivable	198,575	211,432
Allowance for loan losses	(2,113)	(1,930)
Net loans receivable	196,462	209,502
Premises and equipment, net	875	1,131
Accrued interest receivable	1,041	1,028
Deferred taxes	654	393
Other assets	1,887	529
Total assets	$ 286,668	$ 248,645
Liabilities and Stockholders’ Equity		
Liabilities:		
Deposits:		
Demand	$ 23,177	$ 18,565
NOW accounts	42,743	20,192
Money market accounts	12,074	6,878
Savings accounts	64,074	53,750
Time deposits ($100,000 or more)	50,316	60,718
Other time deposits	29,874	27,498
Total deposits	222,258	187,601
Borrowings	41,437	38,504
Accrued interest payable	522	652
Other liabilities	921	1,025
Total liabilities	265,138	227,782
Commitments and contingent liabilities (note 13)		
Stockholders’ equity:		
	—	—

Preferred stock: Par value – $0.10; Authorized shares – 1,000,000; Issued and outstanding shares – None						
Common stock: Par value – $0.10; Authorized shares – 10,000,000; Issued shares – 3,564,242 in 2009 and 3,556,655 in 2008		357			356	
Additional paid-in capital		22,362			22,310	
Accumulated deficit		(1,211	)		(1,981	)
Treasury stock, at cost (36,989 shares in 2009 and 19,210 shares in 2008)		(196	)		(115	)
Directors' deferred stock units (5,485 units in 2009 and 6,630 units in 2008)		25			36	
Accumulated other comprehensive income		193			257	
Total stockholders' equity		21,530			20,863	
Total liabilities and stockholders' equity	$	286,668		$	248,645	

See accompanying notes to consolidated financial statements.

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Fort Orange Financial Corp. and Subsidiaries
Consolidated Statements of Income

Years Ended December 31, 2009 and 2008

	2009	2008
	($ in thousands, except per share data)	
Interest, dividend and fee income:		
Loans:		
Commercial, commercial real estate and construction	$ 8,910	$ 8,896
Residential real estate	1,921	2,067
Home equity and consumer	247	269
Total interest and fees on loans	11,078	11,232
Securities available for sale	1,169	1,243
Securities held to maturity	114	1
Federal Home Loan Bank of New York stock	80	93
Federal funds sold	—	24
Money market investments	463	450
Interest-bearing deposits at other banks	14	4
Total interest, dividend and fee income	12,918	13,047
Interest expense:		
Deposits	4,260	5,270
Borrowings	1,175	1,186
Total interest expense	5,435	6,456
Net interest income	7,483	6,591
Provision for loan losses	1,405	455
Net interest income after provision for loan losses	6,078	6,136
Non-interest income:		
Service charges on deposit accounts	110	94
Gain on sale of securities	607	8
Net gain on lease termination and disposal of premises and equipment	121	—
Other income	78	66
Total non-interest income	916	168
Non-interest expenses:		
Salaries and benefits	2,954	2,800
Occupancy expense	592	633
Equipment expense	310	301
Information technology	251	199
Audit, tax preparation and loan review fees	175	172
Consulting and legal fees	234	279
FDIC deposit insurance premiums and assessments	432	140

Other expenses		762		762
Total non-interest expenses		5,710		5,286
Income before taxes		1,284		1,018
Income tax expense		514		408
Net income	$	770	$	610
Earnings per common share:				
Basic	$	0.22	$	0.17
Diluted	$	0.22	$	0.17

See accompanying notes to consolidated financial statements.

Fort Orange Financial Corp. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2009 and 2008

($ in thousands)	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Directors' Deferred Stock Units	Accumulated Other Comprehensive Income	Total	Comprehensive Income
Balance at December 31, 2007	$ 338	$ 22,214	$ (2,591)	$ —	$ 57	$ 16	$ 20,034	
Net income	—	—	610	—	—	—	610	$ 610
Other comprehensive income, net of tax:								
Increase in net unrealized holding gains on securities available for sale (pre-tax $412)	—	—	—	—	—	246	246	246
Reclassification adjustment for net gains on sales of securities available for sale (pre-tax $8)	—	—	—	—	—	(5)	(5)	(5)
Other comprehensive income, net of tax								241
Comprehensive income								$ 851
Expense related to directors' deferred stock units	—	—	—	—	36	—	36	
Distribution of directors' deferred stock units (7,040 shares)	1	53	—	3	(57)	—	—	
Vesting of employee stock awards (1,000 shares)	—	—	—	—	—	—	—	
Expense related to options and employee stock awards	—	60	—	—	—	—	60	
Distribution of 5% stock dividend (169,236 shares; 388	17	(17)	—	—	—	—	—	

treasury shares)								
Purchases of treasury stock (19,322 shares)	—	—	—	(118)	—	—	(118)	
Balance at December 31, 2008	$ 356	$ 22,310	$ (1,981)	$ (115)	$ 36	$ 257	$ 20,863	
Net income	—	—	770	—	—	—	770	$ 770
Other comprehensive loss, net of tax:								
Increase in net unrealized holding gains on securities available for sale (pre-tax $491)	—	—	—	—	—	308	308	308
Reclassification adjustment for net gains on sales of securities available for sale (pre-tax $607)	—	—	—	—	—	(372)	(372)	(372)
Other comprehensive loss, net of tax								(64)
Comprehensive income								$ 706
Expense related to directors' deferred stock units	—	—	—	—	25	—	25	
Distribution of directors' deferred stock units (6,630 shares)	—	(1)	—	37	(36)	—	—	
Vesting of employee stock awards (9,826 shares)	1	(15)	—	12	—	—	(2)	
Expense related to options and employee stock awards	—	68	—	—	—	—	68	
Purchases of treasury stock (26,648 shares)	—	—	—	(130)	—	—	(130)	
Balance at December 31, 2009	$ 357	$ 22,362	$ (1,211)	$ (196)	$ 25	$ 193	$ 21,530	

See accompanying notes to consolidated financial statements.

Fort Orange Financial Corp. and Subsidiaries
Consolidated Statements of Cash Flows

Years Ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities	($ in thousands)	
Net income	$ 770	$ 610
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,405	455
Depreciation and amortization expense on premises and equipment	220	238
Deferred tax benefit	(210)	(150)
Gain on sale of securities	(607)	(8)
Net (gain) loss on lease termination and disposal of premises and equipment	(121)	7
Net amortization of premiums and discounts on securities	91	—
Expense related to stock-based compensation	93	96
Net (increase) decrease in accrued interest receivable	(13)	154
Net increase in other assets	(1,358)	(14)
Net (decrease) increase in accrued interest payable	(130)	51
Net decrease in other liabilities	(104)	(114)
Net cash provided by operating activities	36	1,325
Cash flows from investing activities		
Purchases of securities available for sale	(22,057)	(13,713)
Proceeds from sales of securities available for sale	15,312	1,004
Proceeds from maturities and calls of securities available for sale	1,250	4,562
Proceeds from principal paydowns on securities available for sale	6,859	3,139
Purchases of securities held to maturity	(533)	(3,586)
Proceeds from principal paydowns on securities held to maturity	1,347	—
Purchases of Federal Home Loan Bank of New York stock	(2,824)	(7,526)
Redemptions of Federal Home Loan Bank of New York stock	2,721	7,044
Purchases of residential real estate loans	(6,783)	(8,585)
Net loans repaid by (made to) customers	18,418	(16,329)
Purchases of premises and equipment	(293)	(142)
Proceeds from lease termination and sales of premises and equipment	450	—
Net cash provided by (used in) investing activities	13,867	(34,132)
Cash flows from financing activities		
Net increase in deposits	34,657	5,626
Net (decrease) increase in overnight lines of credit and other short-term borrowings	(4,086)	3,858
Proceeds from FHLB long-term borrowings	9,250	9,000
Principal repayments of FHLB long-term borrowings	(2,231)	(1,206)
Purchases of treasury stock	(130)	(118)
Tax impact related to stock-based compensation	(2)	—
Net cash provided by financing activities	37,458	17,160

Net increase (decrease) in cash and cash equivalents		51,361		(15,647)
Cash and cash equivalents at beginning of year		4,883		20,530
Cash and cash equivalents at end of year	$	56,244	$	4,883
Supplemental cash flow information				
Interest paid	$	5,565	$	6,405
Income taxes paid	$	870	$	421
Supplemental disclosure of non-cash investing and financing activities				
Distribution of stock for directors' deferred stock units	$	36	$	57

See accompanying notes to consolidated financial statements.

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Fort Orange Financial Corp. and Subsidiaries
Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of Fort Orange Financial Corp. and subsidiaries (the "Company") conform to accounting principles generally accepted in the United States of America and reporting practices generally followed by the banking industry. The more significant policies are described below.

Organization and Principles of Consolidation
Fort Orange Financial Corp. (the "Holding Company") was formed as a Delaware corporation on March 8, 2006 to serve as the bank holding company for Capital Bank & Trust Company (the "Bank"). Effective December 1, 2006, after receiving the required regulatory approvals from the New York State Banking Department (the "Banking Department") and the Federal Reserve Bank of New York (the "FRB"), the Bank completed its reorganization into the holding company structure and became a wholly-owned subsidiary of Fort Orange Financial Corp. (the "Reorganization"). Each issued and outstanding share of common stock and preferred stock of the Bank was automatically converted into one share of common stock or preferred stock, respectively, of Fort Orange Financial Corp.

The Bank is a New York State-chartered financial institution that engages in commercial banking activities primarily in Albany and Saratoga counties and surrounding areas of New York State. The Bank's primary customers are small to mid-size businesses, professionals, such as doctors, attorneys and accountants, and high net worth individuals. The Bank's principal lending products are commercial real estate loans, construction and land loans, commercial loans, lines of credit and leases, residential real estate loans, home equity loans and lines of credit, and consumer installment loans and lines of credit. Deposit products include demand deposits, money market accounts, savings accounts and time deposits. The Bank is regulated by the Federal Deposit Insurance Corporation ("FDIC") and the Banking Department. The Holding Company is regulated by the FRB.

The consolidated financial statements include the accounts of the Holding Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation
The Company utilizes the accrual method of accounting for financial reporting purposes. Amounts in the prior year's consolidated financial statements have been reclassified whenever necessary to conform to the current year's presentation. Such reclassifications had no impact on net income.

Use of Estimates
The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the evaluation of other-than-temporary impairment of securities, and the valuation of deferred tax assets.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents consists of cash on hand, due from banks, federal funds sold, short-term investments with an original maturity of 90 days or less (including money market investments), and interest-bearing deposits at other banks.

Securities

Management determines the appropriate classification of securities at the time of purchase. If management has the positive intent and ability to hold debt securities to maturity, they are classified as securities held to maturity and carried at cost, adjusted for amortization of premiums and accretion of discounts using an effective interest method. If securities are purchased for the purpose of selling them in the near term, they are classified as trading securities and are reported at fair value with unrealized holding gains and losses reflected in current earnings. All other debt and marketable equity securities are classified as securities available for sale and are reported at fair value, with net unrealized gains or losses reported, net of income taxes, in accumulated other comprehensive income or loss. At December 31, 2009 and 2008, and during the years then ended, the Company did not hold any securities considered to be trading securities.

Fort Orange Financial Corp. and Subsidiaries
Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Gains or losses on the disposition of securities are based on the net proceeds received and the adjusted carrying amount of the securities sold using the specific identification method. Declines in the fair value of available for sale and held to maturity securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value, which may be maturity.

Federal Home Loan Bank of New York Stock
As a member of the Federal Home Loan Bank of New York (the "FHLB"), the Company is required to hold stock in the FHLB according to predetermined formulas set by the FHLB. FHLB stock is carried at cost since it has no readily available market value. The stock cannot be sold, but can be redeemed by the FHLB at cost. Dividends on FHLB stock are recorded when declared by the FHLB.

Loans
Loans are carried at the principal amount outstanding, net of unamortized deferred loan origination fees and costs and the allowance for loan losses. Nonrefundable loan fees and direct loan origination costs are deferred and amortized over the estimated life of the loan as an adjustment to the yield.

Loans are placed on non-accrual status when, in the judgment of management, the probability of collection of principal and/or interest is deemed to be insufficient to warrant further accrual. When a loan is placed on non-accrual status, previously accrued but unpaid interest is deducted from interest income. The Company generally does not accrue interest on loans that are 90 days or more past due for the payment of principal and/or interest unless active collection efforts and/or the value of the collateral, if any, indicate that full recovery is probable. Payments received on non-accrual loans are generally applied to reduce the unpaid principal balance, however, interest on non-accrual loans may also be recognized as payments are received. Loans are returned to accrual status when all contractual principal and interest payments are brought current and future payments are reasonably assured.

Loans are considered impaired when it is probable that the borrower will not repay the loan according to the original contractual terms of the loan agreement, or when a loan (of any loan type) is restructured in a troubled debt restructuring. Smaller balance, homogeneous loans that are collectively evaluated for impairment, such as residential real estate loans, home equity loans and lines of credit, and consumer loans and lines of credit, are specifically excluded from classification as impaired loans unless such loans are restructured in a troubled debt restructuring. The balance of impaired loans is generally the same as the balance of commercial, commercial real estate and construction loans on non-accrual status. The allowance for loan losses related to impaired loans is based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain loans where repayment of the loan is expected to be provided solely by the underlying collateral (collateral dependent loans).

Allowance for Loan Losses
The allowance for loan losses is increased through a provision for loan losses charged to operations. Loans, or portions thereof, are charged against the allowance for loan losses when management believes that the collectability of all or a portion of the principal is unlikely. Subsequent recoveries, if any, are credited to the

allowance for loan losses when received.

The allowance is an amount that management believes will be necessary to absorb probable losses on existing loans. Management's evaluation of the allowance for loan losses is performed on a periodic basis. Historical loss rates are applied to existing loans with similar characteristics. The historical loss rates used to establish the allowance may be adjusted to reflect management's current assessment of various factors. The impact of economic conditions on the creditworthiness of the borrowers is considered, as well as changes in the experience, ability and depth of lending management and staff, changes in the composition and volume of the loan portfolio, trends in the volume of past due, non-accrual and classified loans, as well as other external factors, such as competition, legal developments and regulatory guidelines.

Fort Orange Financial Corp. and Subsidiaries
Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions. In addition, Federal and state bank regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination, which may not be currently available to management.

Premises and Equipment
Premises and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the term of the related leases, including any probable renewals, or the estimated useful lives of the assets.

Foreclosed Real Estate and Repossessed Property
Foreclosed real estate, comprised of real estate acquired through foreclosure and in-substance foreclosures, and repossessed property are recorded at the fair value of the asset acquired less estimated disposal costs. A loan is categorized as an in-substance foreclosure when the Company has taken possession of the collateral, regardless of whether formal foreclosure proceedings have taken place. At the time of foreclosure or repossession, or when foreclosure occurs in-substance, the excess, if any, of the recorded investment in the loan over the fair value of the property received is charged to the allowance for loan losses. Subsequent declines in the value of foreclosed and repossessed property and net operating expenses are charged directly to other operating expenses. Properties are reappraised, as considered necessary by management, and written down to the fair value less the estimated cost to sell the property, if necessary.

Income Taxes
The Company accounts for income taxes in accordance with the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized subject to management's judgment that those assets will more likely than not be realized. A valuation allowance is recognized if, based on an analysis of available evidence, management believes that all or a portion of the deferred tax assets will not be realized. Adjustments to increase or decrease the valuation allowance are charged or credited, respectively, to income tax expense/benefit. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Interest and penalties related to income taxes, if any, are recognized as a component of income tax expense.

On January 1, 2009, the Company adopted accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of reserves to maintain for uncertain tax positions. The impact of the adoption of this guidance was not significant.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Fort Orange Financial Corp. and Subsidiaries
Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Repurchase Agreements
The Company may enter into sales of securities under agreements to repurchase ("repurchase agreements"). The Company transfers the underlying securities to a third party custodian's account that explicitly recognizes the Company's interest in the securities. Provided the Company maintains effective control over the transferred securities, the repurchase agreements are accounted for as borrowings. The obligations to repurchase securities sold are reflected as a liability within borrowings in the consolidated balance sheet, while the securities underlying the agreements continue to be carried in the Company's securities portfolios.

Stock-Based Compensation
The Company has several stock-based compensation plans, which are more fully described in Note 10. The Company has also adopted a Stock Unit Plan for non-employee directors. Under the Stock Unit Plan, non-employee directors are awarded "stock units" for attendance at board and committee meetings. The stock units earned are immediately vested and can only be forfeited if the director is terminated for "cause" (as defined in the plan). Each stock unit is equivalent to one share of common stock; there is no option for a cash payment. The shares of stock earned in each calendar year are distributed to the directors in the subsequent calendar year.

The Company follows the guidance in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification TM ("ASC") section 718 (FASB ASC 718) in accounting for stock-based compensation. FASB ASC 718 requires an entity to recognize the expense of employee services received in share-based payment transactions and measure the expense based on the grant date fair value of the award. The expense is recognized over the period during which an employee is required to provide service in exchange for the award. Stock-based employee compensation expense is included in salaries and benefits in the consolidated statements of income, while stock-based compensation expense related to directors is included in other expenses.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option valuation model using assumptions concerning expected volatility, expected dividend yield, expected term and a risk-free interest rate. Because the Company's stock options have characteristics significantly different from those of traded options for which the Black-Scholes model was developed, and because changes in the subjective input assumptions can materially affect the fair value estimates, the existing model, in management's opinion, does not necessarily provide a reliable single measure of the fair value of its stock options.

In determining the assumption for expected volatility, management considers both the historical volatility of the Company's stock, which is very thinly traded, as well as various published indices for publicly-traded financial institutions similar in size to the Company. The expected dividend yield is estimated based on the current dividend yield of the Company's stock, adjusted for any anticipated future changes over the expected term of the options. Historical option exercise and employee termination activity is used to estimate the expected term of the options granted and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve for bonds approximating the expected term of the option at the grant date.

The following weighted-average assumptions were used for stock options granted during the year ended December 31, 2008 (no stock options were granted during 2009): expected volatility of 20.0%; no dividend yield; expected term of 7.4 years; and risk-free interest rate of 3.01%. The weighted-average fair value at the

grant date for the options granted during 2008 was $1.64.

The fair value of restricted (or nonvested) shares awarded, measured as of the grant date, is recognized and amortized on a straight-line basis to compensation expense over the vesting period of the awards, with the offsetting credit to additional paid-in capital.

The fair value of the stock units earned by the directors, measured as of the date of the meeting, is recorded as compensation expense, as the stock units are immediately vested and can only be forfeited if the director is terminated for "cause" (as defined in the plan).

Fort Orange Financial Corp. and Subsidiaries
Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Stock Dividend
On April 29, 2008, the Company declared a 5% common stock dividend, which was distributed on May 30, 2008, to stockholders of record as of May 16, 2008. If the Company had accumulated profits (retained earnings), the Company would have transferred the fair market value of the shares issued from retained earnings to common stock and additional paid-in capital. Since the Company had an accumulated deficit at the date of the stock dividend, the par value of the shares issued was transferred from additional paid-in capital to common stock.

Earnings Per Share
Basic earnings per share is calculated by dividing net income less dividends on convertible preferred stock (if any) by the weighted-average number of common shares outstanding during the period, including the stock units awarded under the Stock Unit Plan, which are considered to be contingently issuable shares.

Diluted earnings per share is computed in a manner similar to that of basic earnings per share except that the weighted-average number of common shares outstanding is increased to include the number of incremental common shares that would have been outstanding under the treasury stock method if all potentially dilutive common shares (such as convertible preferred stock, stock options and restricted stock) were issued or became vested during the reporting period.

All share and per share information has been retroactively adjusted to give effect to the 5% common stock dividend distributed in May 2008.

Financial Instruments
In the normal course of business, the Company is a party to certain financial instruments with off-balance sheet risk, such as commitments to extend credit, unadvanced construction loans, unused lines of credit and standby letters of credit. The Company’s policy is to record such instruments when funded.

Comprehensive Income/Loss
Comprehensive income/loss represents the sum of net income and items of other comprehensive income/loss, which are reported directly in stockholders’ equity, net of tax, such as the change in the net unrealized gain or loss on securities available for sale. Accumulated other comprehensive income/loss, which is a component of stockholders’ equity, represents the net unrealized gain or loss on securities available for sale, net of tax.

Advertising
Advertising costs are expensed as incurred and totaled approximately $53,000 and $43,000 for the years ended December 31, 2009 and 2008, respectively.

Segment Reporting
The overwhelming majority of the Company’s operations are in the banking industry and include providing to its customers traditional banking services. The Company operates primarily in Albany and Saratoga counties and surrounding areas of New York State. Management makes operating decisions and assesses performance based on an ongoing review of its banking operations, which constitute the Company’s only reportable segment.

Subsequent Events

The Company has evaluated subsequent events through February 27, 2010, which is the date the consolidated financial statements were available to be issued.

(2) Preferred Stock

As of December 31, 2009, the Company had 1,000,000 shares of authorized preferred stock that may be issued by the Board of Directors from time to time in one or more series, with each series having the rights and privileges determined by the Board of Directors in their best judgment. There was no preferred stock outstanding during 2009 or 2008.

Fort Orange Financial Corp. and Subsidiaries
Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(3) Earnings Per Share

The following table sets forth certain information regarding the calculation of basic and diluted earnings per share for the years ended December 31. All share and per share amounts have been retroactively adjusted to give effect to the 5% common stock dividend distributed in May 2008.

	2009	2008
	($ in thousands, except per share data)	
Net income	$ 770	$ 610
Weighted-average common shares outstanding, including stock units awarded under the Stock Unit Plan	3,538	3,549
Dilutive effect of outstanding stock options and stock awards	1	3
Weighted-average common shares outstanding, assuming dilution	3,539	3,552
Basic earnings per common share	$ 0.22	$ 0.17
Diluted earnings per common share	$ 0.22	$ 0.17

As of December 31, 2009, there were 276,909 stock options outstanding with a weighted-average exercise price of $5.98 that were excluded from the computation of diluted earnings per common share as the impact was anti-dilutive. At that same date, there were also 55,282 nonvested stock awards outstanding with a weighted-average grant date fair value of $6.19 that were excluded from the computation of diluted earnings per common share as the impact was anti-dilutive.

(4) Securities

The amortized cost, gross unrealized gains and losses and approximate fair value of securities at December 31, 2009 and 2008 are as follows:

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
	($ in thousands)			
Available for Sale:				
Agency mortgage-backed securities (1)	$ 10,300	$ 246	$ (10)	$ 10,536
Agency collateralized mortgage obligations (1)	10,738	159	(41)	10,856
Private collateralized mortgage obligations (1)	1,273	—	(26)	1,247
SBA guaranteed loan pools	2,278	—	(14)	2,264
Total securities available for sale	$ 24,589	$ 405	$ (91)	$ 24,903
Held to Maturity:				

U.S. agency securities	$ 1,540	$ 58	$ —	$ 1,598
Agency collateralized mortgage obligations (1)	1,179	21	—	1,200
Total securities held to maturity	$ 2,719	$ 79	$ —	$ 2,798

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	2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
	($ in thousands)			
Available for Sale:				
U.S. agency securities	$ 1,249	$ 16	$ —	$ 1,265
Agency mortgage-backed securities (1)	16,605	373	(3)	16,975
Agency collateralized mortgage obligations (1)	5,646	131	—	5,777
Private collateralized mortgage obligations (1)	1,883	—	(87)	1,796
Total securities available for sale	$ 25,383	$ 520	$ (90)	$ 25,813
Held to Maturity:				
U.S. agency securities	$ 2,045	$ 32	$ —	$ 2,077
Agency collateralized mortgage obligations (1)	1,541	2	(6)	1,537
Total securities held to maturity	$ 3,586	$ 34	$ (6)	$ 3,614

(1) All agency mortgage-backed securities, agency collateralized mortgage obligations and private collateralized mortgage obligations are backed by residential mortgage loans as the underlying collateral.

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The following table sets forth information with regard to securities with unrealized losses at December 31, 2009 and 2008, segregated according to the length of time the securities had been in a continuous unrealized loss position as of that date:

	2009					
	Less Than 12 Months		12 Months or Greater		Total	
Security category	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	($ in thousands)					
Available for Sale:						
Agency mortgage-backed securities	$ 1,025	$ (10)	$ —	$ —	$ 1,025	$ (10)
Agency collateralized mortgage obligations	2,967	(41)	—	—	2,967	(41)
Private collateralized mortgage obligations	781	(9)	466	(17)	1,247	(26)
SBA guaranteed loan pools	2,264	(14)	—	—	2,264	(14)
Total	$ 7,037	$ (74)	$ 466	$ (17)	$ 7,503	$ (91)

	2008					
	Less Than 12 Months		12 Months or Greater		Total	
Security category	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	($ in thousands)					
Available for Sale:						
Agency mortgage-backed securities	$ 785	$ (3)	$ —	$ —	$ 785	$ (3)
Private collateralized mortgage obligations	1,531	(85)	265	(2)	1,796	(87)
Held to Maturity:						
Agency mortgage-backed securities	737	(6)	—	—	737	(6)
Total	$ 3,053	$ (94)	$ 265	$ (2)	$ 3,318	$ (96)

At December 31, 2009, the unrealized losses on the Company’s securities were caused primarily by changes in market interest rates and widening of sector spreads between the date the respective securities were purchased and December 31, 2009. The unrealized losses relate to eleven individual securities, all of which have the highest available credit rating from nationally recognized rating agencies. Because the unrealized losses are related primarily to changes in market interest rates and widening of sector spreads and are not necessarily related to the underlying credit quality of the issuers of the securities, coupled with the fact that the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before recovery of their amortized cost bases, which may be maturity, the Company does not consider any of these securities to be other-than-temporarily impaired at December 31, 2009.

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Shown below are the amortized cost and approximate fair value of debt securities as of December 31, 2009, by contractual maturity (excluding mortgage-backed securities, collateralized mortgage obligations and SBA guaranteed loan pools). Actual maturities will differ from contractual maturities because issuers may have the right to prepay obligations with or without prepayment penalties. In addition, issuers of certain securities may have the right to call obligations without prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Approximate Fair Value	Amortized Cost	Approximate Fair Value
	($ in thousands)			
Due in one year or less	$ —	$ —	$ —	$ —
Due after one through five years	—	—	1,540	1,598
Due after five through ten years	—	—	—	—
Due after ten years	—	—	—	—
Total	$ —	$ —	$ 1,540	$ 1,598

The Company received $15.3 million and $1.0 million in proceeds from the sale of securities available for sale during the years ended December 31, 2009 and 2008, respectively, realizing gains of $607,000 and $8,000. There were no losses in either 2009 or 2008.

Securities with a carrying value of $26.1 million and $29.4 million at December 31, 2009 and 2008, respectively, were pledged to secure public deposits, outstanding or available borrowings, and for other purposes as required by law.

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(5) Loans

A summary of net loans as of December 31 is as follows:

	2009	2008
	($ in thousands)	
Commercial	$ 69,003	$ 75,294
Commercial real estate	59,011	43,704
Construction and land	28,063	44,777
Residential real estate	34,993	41,473
Home equity	7,223	5,825
Consumer	282	359
Total loans	198,575	211,432
Allowance for loan losses	(2,113)	(1,930)
Net loans	$ 196,462	$ 209,502

For purposes of the table above, commercial real estate loans include those loans secured by real estate collateral where less than 50% of the underlying property securing the loan is owner-occupied. If a loan is secured by real estate collateral but the underlying property securing the loan is 50% or more owner-occupied, the loan is classified as a commercial loan.

Included in the loan balances in the table above were $105,000 and $175,000 of unamortized net deferred loan origination costs at December 31, 2009 and 2008, respectively.

At December 31, 2009, approximately $24.4 million of residential real estate loans and approximately $29.3 million of commercial real estate and commercial loans were pledged as collateral for outstanding or available FHLB borrowings.

Changes in the allowance for loan losses during the years ended December 31 were as follows:

	2009	2008
	($ in thousands)	
Allowance at beginning of year	$ 1,930	$ 1,715
Provision for loan losses	1,405	455
Loans charged-off	(1,281)	(300)
Recoveries of loans charged-off	59	60
Allowance at end of year	$ 2,113	$ 1,930

Total non-performing loans at December 31, 2009 and 2008 consisted solely of loans in non-accrual status and amounted to approximately $1.4 million and $787,000, respectively. At December 31, 2008, there were also loans totaling $870,000 that were greater than 90 days past due and still accruing interest (none at December 31, 2009). At both December 31, 2009 and 2008, there were no material commitments to extend further credit to borrowers with non-performing loans.

Contractual interest on the non-accrual loans noted above of approximately $90,000 and $64,000, was not recognized in interest income during the years ended December 31, 2009 and 2008, respectively. The amount of interest on the non-accrual loans noted above that was collected and recognized in interest income during the years ended December 31, 2009 and 2008, was not significant.

At December 31, 2009 and 2008, the recorded investment in loans that are considered to be impaired totaled approximately $468,000 and $597,000, respectively, for which the allocated allowance for loan losses was approximately $185,000 at December 31, 2009, and approximately $241,000 at December 31, 2008. There were no impaired loans at December 31, 2009 or 2008 that did not require an allocation of the allowance for loan losses. The average recorded investment in impaired loans during the years ended December 31, 2009 and 2008 was approximately $1.6 million and $899,000, respectively. The interest income accrued on those impaired loans or recognized using the cash basis of income recognition was not significant for the years ended December 31, 2009 or 2008.

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At December 31, 2009 and 2008, outstanding loans to directors, executive officers or their affiliates totaled $4.6 million and $4.3 million, respectively. During 2009, new loans or advances to such related parties amounted to $7.7 million and repayments amounted to $7.4 million. Loans made by the Company to directors, executive officers or their affiliates were made in the ordinary course of business, on substantially the same terms, including interest rates and collateralization, as those prevailing at the time for comparable transactions with other persons or entities. See also Notes 7 and 12 for additional related party disclosures.

(6) Premises and Equipment

A summary of premises and equipment at December 31 is as follows:

	2009	2008
	($ in thousands)	
Leasehold improvements	$ 914	$ 1,141
Furniture and equipment	951	987
Data processing equipment, including software	1,316	1,302
Total	3,181	3,430
Accumulated depreciation and amortization	(2,306)	(2,299)
Premises and equipment, net	$ 875	$ 1,131

Depreciation and amortization expense was $220,000 and $238,000 for the years ended December 31, 2009 and 2008, respectively.

(7) Deposits

A summary of time deposit maturities at December 31, 2009 is as follows:

	$100,000 and Over	Other Time Deposits
	($ in thousands)	
Years ending December 31:		
2010	$ 31,561	$ 17,523
2011	9,270	6,567
2012	1,995	2,080
2013	3,939	810
2014	3,351	2,894
Thereafter	200	—
Totals	$ 50,316	$ 29,874

At December 31, 2009, deposits from directors, executive officers or their affiliates totaled approximately $10.9 million. Deposits with directors, executive officers or their affiliates were accepted in the ordinary course of business, on substantially the same terms, including interest rates, as those prevailing at the time for comparable transactions with other persons or entities. See also Notes 5 and 12 for additional related party disclosures.

(8) Borrowings

The following is a summary of borrowings at December 31:

	2009	2008
	($ in thousands)	
FHLB overnight line of credit (variable rate)	$ —	$ 5,840
Repurchase agreements (variable rate)	5,761	4,007
FHLB advances (fixed rate)	35,676	28,657
Total borrowings	$ 41,437	$ 38,504

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The following table sets forth certain information with respect to short-term lines of credit and repurchase agreements at and for the years indicated:

	2009	2008
	($ in thousands)	
Short-Term Lines of Credit		
Balance at end of year	$ —	$ 5,840
Maximum month-end balance	5,800	13,320
Average balance during the year	1,279	2,400
Weighted-average interest rate at end of year	—	0.44 %
Weighted-average interest rate during the year	0.47 %	1.82 %
Repurchase Agreements		
Balance at end of year	$ 5,761	$ 4,007
Maximum month-end balance	5,761	6,182
Average balance during the year	4,187	2,960
Weighted-average interest rate at end of year	0.33 %	0.34 %
Weighted-average interest rate during the year	0.31 %	1.45 %

At December 31, 2009, the fair value of securities pledged under repurchase agreements totaled $9.7 million.

Certain of the Company's FHLB advances at December 31, 2009 are callable by the FHLB at one or more dates in the future. If an advance is called by the FHLB, the Company has the option to replace the called advance with a new advance at market terms or to repay the advance. The following table sets forth the contractual maturities of all FHLB advances and the amounts callable at the next call date for the callable FHLB advances at December 31, 2009:

	Contractual Maturity	Weighted-Average Rate	Next Call Date	Weighted-Average Rate
		($ in thousands)		
Years ending December 31:				
2010	$ 4,464	2.20 %	$ 14,000	3.45 %
2011	5,462	3.97	1,000	2.90
2012	7,250	3.51	—	—
2013	3,750	3.06	—	—
2014	5,750	3.63	—	—
Thereafter	9,000	3.38	—	—
Total fixed rate FHLB advances	$ 35,676	3.35 %	$ 15,000	3.41 %

At December 31, 2009, the Bank had available short-term lines of credit of $50.0 million with the FHLB, subject to the amount of available collateral. At December 31, 2009, there were no amounts outstanding against these lines of credit with the FHLB. All borrowings with the FHLB, including short-term lines of credit and longer-term advances, must be collateralized by securities, qualifying loans and/or FHLB stock under a blanket

pledge agreement with the FHLB. Based on the amount of specific collateral pledged, the Bank could have borrowed a maximum of $48.2 million from the FHLB as of December 31, 2009, of which $35.7 million was outstanding.

The Bank also has a $3.0 million unsecured line of credit available with a correspondent financial institution. The Holding Company has a $5.0 million secured line of credit available with a different financial institution. The Holding Company's line of credit is collateralized by its ownership in the Bank's stock. There were no advances outstanding on either of these lines of credit at December 31, 2009.

(9) Regulatory Matters

Regulations require banks to maintain a minimum leverage ratio of Tier 1 capital to total adjusted quarterly average assets of 4.0%, and minimum ratios of Tier 1 capital and total capital to risk-weighted assets of 4.0% and 8.0%, respectively.

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Under their prompt corrective action regulations, regulatory authorities are required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized institution. Such actions could have a direct material effect on an institution's financial statements. The regulations establish a framework for the classification of banks into five categories: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Generally, an institution is considered well-capitalized if it has a Tier 1 capital ratio of at least 5.0% (based on total adjusted quarterly average assets); a Tier 1 risk-based capital ratio of at least 6.0%; and a total risk-based capital ratio of at least 10.0%.

The foregoing capital ratios are based in part on specific quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulatory authorities about capital components, risk weightings and other factors.

As of December 31, 2009 and 2008, the Bank met the capital adequacy requirements noted above. Further, as of December 31, 2009, the Bank was categorized as a well-capitalized institution under the prompt corrective action regulations.

The following is a summary of actual capital amounts and ratios as of December 31, 2009 and 2008 for the Bank, compared to the standard requirements for minimum capital adequacy and for classification as well-capitalized.

			Required Amounts and Ratios			
	Actual Capital		Minimum Capital Adequacy		Classification as Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			($ in thousands)			
As of December 31, 2009:						
Tier 1 Capital (to Average Adjusted Total Assets)	$ 21,156	7.62 %	$ 11,099	4.00 %	$ 13,874	5.00 %
Tier 1 Capital (to Risk-Weighted Assets)	21,156	10.81 %	7,832	4.00 %	11,748	6.00 %
Total Capital (to Risk-Weighted Assets)	23,269	11.88 %	15,664	8.00 %	19,580	10.00 %
As of December 31, 2008:						
Tier 1 Capital (to Average Adjusted Total Assets)	$ 20,302	8.41 %	$ 9,658	4.00 %	$ 12,072	5.00 %
Tier 1 Capital (to Risk-Weighted Assets)	20,302	10.06 %	8,072	4.00 %	12,108	6.00 %

Total Capital (to Risk-Weighted Assets)	22,232	11.02 %	16,144	8.00 %	20,180	10.00 %

The ability of the Bank to pay dividends to the Holding Company is subject to various restrictions. Under New York State Banking Law, dividends may be declared and paid only from the Bank's net profits, as defined. The approval of the Superintendent of Banks of the State of New York (the "Superintendent") is required if the total of all dividends declared in any year will exceed the net profit for that year plus the retained net profits of the preceding two years. As of December 31, 2009, the Bank could have paid approximately $2.2 million in dividends to the Holding Company without the prior approval of the Superintendent.

In February 2006, the Federal Reserve Board (the "Board") approved a final rule that expands the definition of a small bank holding company ("SBHC") under the Board's Small Bank Holding Company Policy Statement (the "Policy Statement") and the Board's leverage and risk-based capital guidelines for bank holding companies. In its revisions to the Policy Statement, the Board raised the SBHC asset size threshold from $150 million to $500 million and amended the related qualitative criteria for determining eligibility as a SBHC for the purposes of the Policy Statement and the capital guidelines. The Policy Statement permits debt levels at SBHCs that are higher than what would typically be permitted for larger bank holding companies. Because SBHCs may, consistent with the Policy Statement, operate at a level of leverage that generally is inconsistent with the capital guidelines, the capital guidelines provide an exemption for SBHCs. Based on the eligibility criteria specified in the Policy Statement, management believes that the Holding Company currently qualifies as a SBHC and is exempt from the regulatory capital requirements administered by the federal banking agencies.

(10) Stock-Based Compensation and Employee Benefit Plans

Stock-Based Compensation

As of December 31, 2009, the Company has the following stock-based compensation plans which have been approved by the stockholders: the Fort Orange Financial Corp. 2007 Stock-Based Incentive Plan (the "FOFC 2007 Plan"); the 1996 Stock Option Plan for Key Employees (the "1996 Employee Plan"); the 1997 Stock Option Plan for Key Employees (the "1997 Employee Plan"); the 1996 Stock Option Plan for Non-Employee Directors (the "1996 Director Plan"); and the Stock Unit Plan for non-employee directors (the "Stock Unit Plan") (collectively, the "Stock Compensation Plans").

The total compensation cost that was charged against income for the Stock Compensation Plans was approximately $93,000 and $96,000 for the years ended December 31, 2009 and 2008, respectively. The total income tax benefit recognized in the consolidated statements of income for stock-based compensation arrangements was approximately $24,000 and $28,000 for the years ended December 31, 2009 and 2008, respectively.

As of December 31, 2009, there were 61,357 shares of authorized common stock reserved for issuance under the 1996 Employee Plan, the 1997 Employee Plan, and the 1996 Director Plan. The Company also has the alternative to fund option exercises under these plans with treasury stock. As of December 31, 2009, there were no shares available for future grant under these three plans. All options granted under these plans were non-qualified stock options. Each option entitles the holder to purchase one share of common stock at an exercise price equal to the estimated fair market value on the date of grant. Options expire ten years following the date of grant. The vesting provisions for options granted under the 1996 Employee Plan and the 1997 Employee Plan were determined by a committee of the Board of Directors at the date of grant. The options granted under the 1996 Director Plan vest over a three year period (40% after year one, 33% after year two, and 27% after year three).

Under the FOFC 2007 Plan, 315,000 shares of authorized common stock are reserved for issuance upon the exercise of stock options or the vesting of restricted stock ("stock awards") (of the 315,000 shares available, no more than 105,000 may be granted in the form of stock awards). The Company also has the alternative to fund the FOFC 2007 Plan with treasury stock. As of December 31, 2009, the Company had 23,704 shares available for future grant under the FOFC 2007 Plan. Options under the FOFC 2007 Plan may be either non-qualified stock options or incentive stock options. Each option entitles the holder to purchase one share of common stock at an exercise price greater than or equal to the estimated fair market value on the date of grant. Options expire no later than ten years following the date of grant. The vesting provisions for options and stock awards granted under the FOFC 2007 Plan are determined by a committee of the Board of Directors at the date of grant.

The vesting of all stock options and stock awards is immediately accelerated in the event of a change-in-control of the Company, as defined in the respective plans.

The primary objective of the Stock Compensation Plans is to enhance the Company's ability to attract and retain highly qualified officers, employees and directors, by providing such persons with stronger incentives to continue to serve the Company and to improve the business results and earnings of the Company.

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A summary of option activity under the Stock Compensation Plans as of December 31, 2009, and changes during the year then ended, is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term in Years	Aggregate Intrinsic Value ($ in 000s)
Outstanding at December 31, 2008	308,251	$ 5.98		
Granted	—	—		
Exercised	—	—		
Forfeited, cancelled or expired	(31,342)	5.96		
Outstanding at December 31, 2009	276,909	$ 5.98	7.5	$ —
Exercisable at December 31, 2009	84,523	$ 5.70	5.5	$ —

There were no options exercised during either 2009 or 2008. The total remaining unrecognized compensation cost related to nonvested stock options at December 31, 2009 was approximately $310,000 (subject to actual forfeitures), which will be recognized over a weighted-average period of approximately 4.1 years.

A summary of restricted stock activity as of December 31, 2009, and changes during the year then ended, is presented below:

Restricted Stock	Shares	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2008	79,800	$ 5.84
Granted	—	—
Vested	(9,826)	6.00
Forfeited or cancelled	(4,006)	5.51
Nonvested at December 31, 2009	65,968	$ 5.84

The total fair value of restricted shares that vested during 2009 and 2008 was $45,000 and $7,000, respectively (calculated as of the vesting date). The total remaining unrecognized compensation cost related to nonvested stock awards at December 31, 2009 was approximately $372,000 (subject to actual forfeitures), which will be recognized over a weighted-average period of approximately 4.0 years.

During the years ended December 31, 2009 and 2008, 5,485 and 6,630 shares, respectively, were earned by directors under the Stock Unit Plan. The weighted-average fair value of the shares earned during the years ended December 31, 2009 and 2008 was $4.52 and $5.47, respectively. As of December 31, 2009, there were 5,485 shares that had been earned under the Stock Unit Plan, but not yet distributed.

401(k) Plan

The Company sponsors a defined contribution 401(k) plan covering substantially all employees meeting certain eligibility requirements. During 2009 and 2008, the Company matched 100% of an eligible employee's pre-tax contributions up to a maximum contribution by the Company of 4% of the employee's annual salary. The amount of 401(k) contribution expense was approximately $65,000 in each of the years ended December 31, 2009 and 2008, respectively.

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(11) Income Taxes

The components of income tax expense for the years ended December 31 are as follows:

	2009	2008
	($ in thousands)	
Current tax expense:		
Federal	$ 584	$ 453
State	140	105
Deferred tax benefit	(210)	(150)
Total income tax expense	$ 514	$ 408

The following is a reconciliation of the expected income tax expense and the actual income tax expense for the years ended December 31. The expected income tax expense has been computed by applying the statutory federal tax rate of 34% to income before taxes:

	2009	2008
	($ in thousands)	
Tax expense at statutory rates	$ 437	$ 346
State taxes, net of federal benefit	62	51
Other	15	11
Actual income tax expense	$ 514	$ 408

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31 are presented below:

	2009	2008
	($ in thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 660	$ 381
Compensation agreements	51	63
Depreciation	16	79
Other	48	43
Total deferred tax assets	775	566
Deferred tax liabilities:		
Bond discount accretion	—	(1)
Net unrealized gains on securities available for sale	(121)	(172)
Total deferred tax liabilities	(121)	(173)
Net deferred tax asset at end of year	$ 654	$ 393

Based on anticipated future taxable income, management believes it is more likely than not that the Company will realize its net deferred tax assets.

The Company files income tax returns in the U.S. federal jurisdiction and in New York State. With few exceptions, the Company is no longer subject to U.S. federal and New York State examinations by tax authorities for years before 2006. On February 9, 2010, the Company received notice from the Internal Revenue Service that they would be examining the Company's 2007 and 2008 U.S. federal income tax returns.

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(12) Related Party Transactions

The Company has had, and may be expected to have in the future, transactions with directors, their immediate families and affiliated companies in which they are principals (commonly referred to as "related parties"). The Company believes that the transactions with the related parties have been conducted on market terms. A summary of non-loan/deposit transactions with related parties during the years ended December 31 is as follows:

	2009	2008
	($ in thousands)	
Occupancy-related	$ 360	$ 212
Advertising and public relations	$ 17	$ 17
Legal services	$ 46	$ 34

In addition, during 2009 and 2008, the Company purchased approximately $3.0 million and $7.0 million, respectively, of loans secured by residential real estate from a mortgage banker in which a director of the Company has an ownership interest. The Company believes the loan purchases were conducted on market terms and conditions. See also Notes 5 and 7 regarding loans to and deposits with related parties.

(13) Commitments and Contingent Liabilities

Off-Balance Sheet Financing and Concentrations of Credit

The Company is a party to certain financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include the Company's commitments to extend credit and unused lines of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit and unused lines of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

Unless otherwise noted, the Company does not require collateral or other security to support off-balance sheet financial instruments with credit risk.

Contract amounts of financial instruments that represent credit risk as of December 31 are as follows:

		2009	
	Fixed	Variable	Total
		($ in thousands)	
Commitments to extend credit	$ 4,702	$ 1,320	$ 6,022
Commitments to purchase loans	—	83	83

Unadvanced construction and land loans		928		7,557		8,485
Unused lines of credit		964		28,558		29,522
Standby letters of credit		961		—		961
Total	$	7,555	$	37,518	$	45,073

		2008				
		Fixed		Variable		Total
				($ in thousands)		
Commitments to extend credit	$	3,288	$	—	$	3,288
Commitments to purchase loans		133		—		133
Unadvanced construction and land loans		—		12,387		12,387
Unused lines of credit		635		26,516		27,151
Standby letters of credit		280		—		280
Total	$	4,336	$	38,903	$	43,239

Commitments to extend credit, unadvanced construction and land loans and unused lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain commitments are expected to expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral, if any, required by the Company upon the extension of credit is based on management's credit evaluation of the customer.

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The Company enters into commitments to purchase residential real estate loans in the normal course of business. These commitments are contingent on a review of the loan files by Company personnel to ensure that the loans meet pre-designated underwriting criteria.

Commitments to extend credit and unused lines of credit may be written on a fixed-rate basis exposing the Company to interest rate risk given the possibility that market rates may change between commitment and actual extension of credit.

Standby letters of credit are conditional commitments issued by the Company to guarantee payment on behalf of a customer and/or guarantee the performance of a customer to a third party. Standby letters of credit generally arise in connection with lending relationships. The credit risk involved in issuing these instruments is essentially the same as that involved in extending loans to customers. Contingent obligations under the standby letters of credit represent the maximum potential future payments the Company could be required to make. Typically, these instruments have terms of twelve months or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. Each customer is evaluated individually for creditworthiness under the same underwriting standards used for commitments to extend credit and on-balance sheet instruments. Company policies governing loan collateral apply to standby letters of credit at the time of credit extension. Loan-to-value ratios will generally range from 50% for movable assets, such as inventory, to 100% for liquid assets, such as deposit accounts. The fair value of the Company's standby letters of credit at December 31, 2009 and 2008 was insignificant.

Concentrations of Credit

The Company conducts the majority of its business in Albany and Saratoga counties and surrounding areas of New York State. A substantial portion of its debtors' ability to honor their loan contracts is dependent upon economic conditions in these areas.

Leases

The Company leases its branch locations and administrative offices under non-cancelable operating leases. In addition, periodically the Company may lease certain automobiles and office equipment. Total lease payments were $400,000 and $406,000 for the years ended December 31, 2009 and 2008, respectively. The future minimum payments by year and in the aggregate under non-cancelable operating leases as of December 31, 2009 are as follows:

Years ending December 31:		($ in thousands)
2010	$	435
2011		307
2012		269
2013		248
2014		227
Thereafter		400
Total	$	1,886

Reserve Requirement

The Company is required to maintain certain reserves of vault cash and/or deposits with the Federal Reserve Bank. The amount of this reserve requirement was approximately $994,000 at December 31, 2009.

Contingent Liabilities

In the ordinary course of business, there may be various legal proceedings pending against the Company. Based on consultation with outside counsel, management believes that the aggregate exposure, if any, arising from such litigation would not have a material adverse effect on the Company's consolidated financial statements.

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(14) Fair Value Measurements and Fair Value of Financial Instruments

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company adopted the guidance in the Fair Value Measurements and Disclosures topic of FASB ASC effective January 1, 2008. This guidance defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. The guidance provides a consistent definition of fair value, which focuses on the exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in the valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions. Fair value measurements are not adjusted for transaction costs. The adoption of the guidance in the Fair Value Measurements and Disclosures topic of FASB ASC had no impact on the amounts reported in the consolidated financial statements. The primary effect of adopting this guidance was to expand the required disclosures pertaining to the methods used to determine fair values.

The guidance in the Fair Value Measurements and Disclosures topic of FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the guidance are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following table sets forth the Company's financial assets and liabilities that are measured at fair value on a recurring basis. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	Quoted Prices	Significant Other	Significant Unobservable

	Balance	in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)
		($ in thousands)		
At December 31, 2009:				
Assets:				
Securities available for sale	$ 24,903	$ —	$ 24,903	$ —
At December 31, 2008:				
Assets:				
Securities available for sale	$ 25,813	$ —	$ 25,813	$ —

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December 31, 2009 and 2008

Fair values for securities are based on quoted market prices or dealer quotes, where available. Where quoted market prices are not available, fair values are based on quoted market prices of comparable instruments with similar characteristics. When necessary, the Company utilizes "matrix" pricing from a third party vendor to determine fair values. Matrix prices are indicative values computed primarily or exclusively using computerized models based on inputs such as Treasury yields, swap rates, spreads, prepayment projections and other assumptions believed to be applicable to the classes of securities being valued.

The fair value guidance also requires disclosure of assets and liabilities measured and recorded at fair value on a nonrecurring basis. In accordance with the provisions of the impaired loan guidance, the Company had impaired loans with a carrying value of approximately $468,000 and $597,000 at December 31, 2009 and 2008, respectively, for which the allocated allowance for loan losses was approximately $185,000 and $241,000, respectively. The Company generally uses the fair value of the underlying collateral to estimate the allowance for loan losses allocated to impaired loans. Fair value is generally determined based upon independent third party appraisals of the collateral, or discounted cash flows based upon the expected proceeds. Based on the valuation techniques used, the fair value measurements for impaired loans are classified as Level 3.

The Company also has the option to measure eligible financial assets, financial liabilities and Company commitments at fair value (i.e., the "fair value option"), on an instrument-by-instrument basis, that are not otherwise permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Company commitment. Subsequent changes in fair value must be recorded in earnings. There are also presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The fair value option does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value and does not eliminate disclosure requirements included in other accounting standards. As of December 31, 2009 and 2008, the Company had not elected the fair value option for any eligible items.

The Company is also required to disclose estimated fair values for its financial instruments. The definition of a financial instrument includes many of the assets and liabilities recognized in the Company's consolidated balance sheet, as well as certain off-balance sheet items.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected net cash flows, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the disclosed

estimates of fair value.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Short-Term Financial Instruments
The fair value of certain financial instruments is estimated to approximate their carrying value because the remaining term to maturity or period to repricing of the financial instrument is less than 90 days. Such financial instruments include cash and cash equivalents, accrued interest receivable and accrued interest payable.

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Securities Available for Sale and Securities Held to Maturity
Securities available for sale and securities held to maturity are financial instruments that are usually traded in broad markets. Fair values for securities are based on quoted market prices or dealer quotes, where available. Where quoted market prices are not available, fair values are based on quoted market prices of comparable instruments with similar characteristics. When necessary, the Company utilizes “matrix” pricing from a third party vendor to determine fair values. Matrix prices are indicative values computed primarily or exclusively using computerized models based on observable inputs such as Treasury yields, swap rates, spreads, prepayment projections and other assumptions believed to be applicable to the classes of securities being valued.

Federal Home Loan Bank of New York Stock
The fair value of Federal Home Loan Bank of New York stock is equal to its carrying amount (cost) since there is no readily available market value and the stock cannot be sold, but can be redeemed by the Federal Home Loan Bank of New York at cost.

Loans
For performing variable rate loans that reprice frequently, fair value is assumed to equal the carrying amount. Fair values for performing fixed rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms.

Estimated fair value for non-performing loans is based on estimated cash flows discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows and discount rates are judgmentally determined using available market information and specific borrower information.

Deposits
The estimated fair value of deposits with no stated maturity, such as non-interest-bearing deposits, NOW accounts, money market accounts and savings accounts, is regarded to be the amount payable on demand (carrying value). The estimated fair value of time deposit accounts is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits with similar remaining maturities. The fair value estimates for deposits do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared with the cost of borrowing funds in the market.

Borrowings
The carrying amounts of repurchase agreements and other short-term borrowings approximate their fair values. Fair values for long-term borrowings (such as Federal Home Loan Bank of New York advances) are estimated using a discounted cash flow approach based on current market rates for similar borrowings.

Management uses its best judgment in estimating the fair value of the Company’s financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates contained herein are not necessarily indicative of the amounts the Company could have realized in an actual sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each

year-end.

The carrying amounts and estimated fair values of financial assets and liabilities as of December 31 were as follows:

	2009		2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	($ in thousands)			
Financial assets				
Cash and cash equivalents	$ 56,244	$ 56,244	$ 4,883	$ 4,883
Securities available for sale	24,903	24,903	25,813	25,813
Securities held to maturity	2,719	2,798	3,586	3,614
Federal Home Loan Bank of New York stock	1,883	1,883	1,780	1,780
Net loans receivable	196,462	205,302	209,502	220,772
Accrued interest receivable	1,041	1,041	1,028	1,028
Financial liabilities				
Deposits:				
Demand, NOW, money market and savings accounts	142,068	142,068	99,385	99,385
Time deposits	80,190	81,913	88,216	90,696
Borrowings	41,437	43,087	38,504	40,691
Accrued interest payable	522	522	652	652

The fair value of commitments to extend credit, unused lines of credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate commitments to extend credit and unused lines of credit, fair value also considers the difference between current levels of interest rates and the committed rates. Based upon the estimated fair value of commitments to extend credit, unused lines of credit and standby letters of credit, there are no significant unrealized gains or losses associated with these financial instruments.

(15) Partial Sale of Insurance Claim

In December 2006, the Company sold an undivided interest in a pending fidelity bond insurance claim to an unrelated third party (the “Purchaser”) for $250,000, which was included in non-interest income in the 2006 consolidated statement of income. To the extent that the Company receives any funds as a result of the claim or the related lawsuit against the insurance carrier, the Purchaser will receive the first $250,000, plus interest at an annualized rate of 8%. If the Company receives in excess of $1.0 million as a result of the claim or the related lawsuit, the Purchaser is entitled to an additional payment based on a pre-determined formula. If the Company receives no funds as a result of the claim or the related lawsuit, it has no obligation to the Purchaser. All costs and expenses incurred by the Company in pursuing the claim and the related lawsuit are to be paid by the Company, without offset or deduction from any amounts due to the Purchaser. As of December 31, 2009, the claim remains outstanding.

Unaudited Pro Forma Information Relating to Merger

The following unaudited pro forma condensed combined balance sheet as of September 30, 2010 and the unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2010 and for the year ended December 31, 2009 are based on the historical financial statements of Chemung Financial and Fort Orange after giving effect to the Merger. The Merger will be accounted for using the acquisition method of accounting in accordance with “Accounting Standards 805, Business Combinations” or (AS 805).

The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2010 and for the year end December 31, 2009 give effect to the Merger as of the beginning of all periods presented. The unaudited pro forma condensed combined balance sheet as of September 30, 2010 assumed that the Merger took place on September 30, 2010.

The unaudited condensed combined balance sheet and statement of operations as of and for the nine months ended September 30, 2010 were derived from Chemung Financial’s unaudited condensed financial statements and Fort Orange’s unaudited condensed financial statements as of and for the nine months ended September 30, 2010. The unaudited condensed statement of operations for the year ended December 31, 2009 was derived from Chemung Financial’s and Fort Orange’s audited statement of operations for the year ended December 31, 2009.

The value of Chemung Financial common stock issued in connection with the Merger will be based on the closing price, as defined in the Merger Agreement, of Chemung Financial common stock on the date the Merger is completed. For purposes of the pro forma financial information, the fair value of Chemung Financial common stock was based on its October 14, 2010 closing price of $21.50 per share, which is the day prior to the Merger announcement.

The unaudited pro forma condensed combined financial statements reflect management’s best estimate of the fair value of the tangible and intangible assets acquired and liabilities assumed. As final valuations are performed, increases or decreases in the fair value of assets acquired and liabilities assumed will result in adjustments, which may be material, to the balance sheet and/or statement of operations.

As required, the unaudited pro forma condensed combined financial statements include adjustments which give effect to the events that are directly attributable to the acquisition, expected to have a continuing impact and are factually supportable. Hence any planned adjustments affecting the balance sheet, statements of operations or changes in common stock outstanding, subsequent to the assumed closing date are not included. Over the next several months it is anticipated that work will continue on preliminary plans to consolidate the operations of Chemung Financial and Fort Orange which we anticipate will result in cost savings not reflected in the unaudited pro forma condensed combined financial statements. For example, the pro forma adjustments do not include any staff reductions or anticipated savings from information technology and professional services redundancies.

The unaudited pro forma condensed combined financial statements are provided for informational purposes only and are subject to a number of uncertainties and assumptions and do not purport to represent what the companies’ actual performance or financial position would have been had the acquisition occurred on the dates indicated and does not purport to indicate the financial position or results of operations as of any date or for any future period.

Please refer to the following information in conjunction with the accompanying notes to these pro forma financial statements and the historical financial statements and the accompanying notes thereto and the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations Regarding Fort Orange” in this joint proxy statement/prospectus. Chemung Financial’s “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for the fiscal year ended December 31, 2009, as included in its Annual Report on

Form 10-K for the year ended December 31, 2009, as filed with the SEC on March 15, 2010 is hereby incorporated by reference.

Chemung Financial Corporation

Unaudited Pro Forma Condensed Combined Balance Sheet
As of September 30, 2010
(In thousands)

	Historical				
	Chemung Financial Corporation & Subsidiaries	Fort Orange Financial Corp. & Subsidiaries	Combined Historical	Pro Forma Adjustments	Combined Pro Forma
Assets					
Cash and due from financial institutions	$ 22,243	$ 3,512	$ 25,755	$	$ 25,755
Interest-bearing deposits in other financial institutions	50,873	31,265	82,138	(723) (A)	73,776
	—	—	—	(7,618) (B)	—
Total cash and cash equivalents	73,116	34,777	107,893	(8,341)	99,552
Securities available for sale, at estimated fair value	245,939	34,051	279,990		279,990
Securities held to maturity	8,028	9,057	17,085		17,085
Federal Home Loan Bank and Federal Reserve Bank Stock	3,339	1,697	5,036		5,036
Loans, net of deferred origination fees and costs and unearned income	590,519	189,638	780,157	4,448 (C)	784,605
Allowance for loan losses	(9,660)	(3,151)	(12,811)	3,151 (C)	(9,660)
Loans, net	580,859	186,487	767,346	7,599	774,945
Loans held for sale	586	—	586		586
Premises and equipment	24,059	955	25,014		25,014
Goodwill	9,872	—	9,872	3,157 (D)	13,029
Other intangible assets	4,836	—	4,836	3,290 (E)	8,126
Bank owned life insurance	2,514	—	2,514		2,514
Other assets	19,552	3,848	23,400	(2,410) (F)	20,990
Total assets	$ 972,700	$ 270,872	$ 1,243,572	$ 3,295	$ 1,246,867
Liabilities and Shareholders' Equity					
Deposits:					
Non-interest bearing	$ 190,125	$ 23,217	$ 213,342	$	$ 213,342
Interest bearing	613,386	186,962	800,348	2,150 (G)	802,498

Total deposits	803,511	210,179	1,013,690	2,150		1,015,840
Securities sold under agreements to repurchase	43,766	13,723	57,489			57,489
Federal Home Loan Bank term advances	20,000	22,799	42,799	2,509	(H)	45,308
Accrued interest payable	894	329	1,223			1,223
Dividends payable	878	—	878			878
Other liabilities	6,358	1,201	7,559	—		7,559
Total liabilities	875,407	248,231	1,123,638	4,659		1,128,297

Chemung Financial Corporation
Unaudited Pro Forma Condensed Combined Balance Sheet
As of September 30, 2010
(In thousands)

	Historical				
	Chemung Financial Corporation & Subsidiaries	Fort Orange Financial Corp. & Subsidiaries	Combined Historical	Pro Forma Adjustments	Combined Pro Forma
Shareholders' Equity					
Common stock	43	375	418	(365) (I)	53
Additional paid-in capital	22,830	22,380	45,210	(688) (I)	44,522
Retained earnings	92,241	(281)	91,960	281 (I)	91,816
				(425) (A)	
Treasury stock	(20,121)	(205)	(20,326)	205 (I)	(20,121)
Accumulated other comprehensive income (loss)	2,300	372	2,672	(372) (I)	2,300
Total shareholders' equity	97,293	22,641	119,934	(1,364)	118,570
Total liabilities and shareholders' equity	$ 972,700	$ 270,872	$ 1,243,572	$ 3,295	$ 1,246,867
Per Share Data:					
Book value per common share	$ 27.01	$ 6.11			$ 25.70
Tangible book value per common share	$ 22.92	$ 6.11			$ 21.11

Chemung Financial Corporation
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Nine Months Ended September 30, 2010
(In thousands)

	Historical					
	Chemung Financial Corporation & Subsidiaries	Fort Orange Financial Corp. & Subsidiaries	Combined Historical	Pro Forma Adjustments		Combined Pro Forma
Interest income	$ 32,394	$ 10,136	$ 42,530	$ (814)	(C)	$ 41,716
Interest expense	6,421	3,239	9,660	(806)	(G)	8,358
	—	—	—	(627)	(H)	—
		—	—	131	(J)	—
Net interest income	25,973	6,897	32,870	488		33,358
Provision for loan losses	1,125	1,250	2,375	—		2,375
Net interest income after provision for loan losses	24,848	5,647	30,495	488		30,983
Noninterest income	12,907	441	13,348	—		13,348
Noninterest expense	27,544	4,573	32,117	449	(E)	32,566
Income before income taxes	10,211	1,515	11,726	39		11,765
Income tax expense	3,157	585	3,742	15		3,757
Net income	$ 7,054	$ 930	$ 7,984	$ 24		$ 8,008
Pro forma earnings per share:						
Basic	$ 1.96	$ 0.25				$ 1.74
Diluted	$ 1.96	$ 0.25				$ 1.74
Weighted average number of shares outstanding						
Basic	3,604,502	3,710,131		1,009,391		4,613,893
Diluted	3,604,502	3,711,607		1,009,391		4,613,893
Dividends per common share	$ 0.75	$ —				$ 0.75

Chemung Financial Corporation
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2009
(In thousands)

	Historical					
	Chemung Financial Corporation & Subsidiaries	Fort Orange Financial Corp. & Subsidiaries	Combined Historical	Pro Forma Adjustments		Combined Pro Forma
Interest income	$ 44,490	$ 12,918	$ 57,408	$ (1,085)	(C)	$ 56,323
Interest expense	11,335	5,435	16,770	(1,075)	(G)	15,034
	—	—	—	(836)	(H)	—
	—	—	—	175	(J)	—
Net interest income	33,155	7,483	40,638	651		41,289
Provision for loan losses	2,450	1,405	3,855	—		3,855
Net interest income after provision for loan losses	30,705	6,078	36,783	651		37,434
Noninterest income	15,709	916	16,625	—		16,625
Noninterest expense	39,321	5,710	45,031	598	(E)	45,629
Income before income taxes	7,093	1,284	8,377	53		8,430
Income tax expense	1,860	514	2,374	21		2,395
Net income	$ 5,233	$ 770	$ 6,003	$ 32		$ 6,035
Pro forma earnings per share:						
Basic	$ 1.45	$ 0.21				$ 1.31
Diluted	$ 1.45	$ 0.21				$ 1.31
Weighted average number of shares outstanding						
Basic	3,603,129	3,714,709		1,009,391		4,612,520
Diluted	3,603,129	3,715,643		1,009,391		4,612,520
Dividends per common share	$ 1.00	$ —				$ $ 1.00

Notes to Unaudited Condensed Combined Pro Forma Financial Statements

Description of the Merger and Basis of Preparation.

The Merger.

On October 14, 2010, Chemung Financial Corporation ("Chemung Financial") entered into an Agreement and Plan of Merger ("Merger Agreement") to acquire Fort Orange Financial Corp. ("Fort Orange" or "FOFC") in a stock and cash transaction. If the Merger Agreement is approved and the merger is subsequently completed, Fort Orange will merge with and into Chemung Financial and cease to exist (the "Merger").

If the Merger Agreement is approved and the Merger is subsequently completed, the holders of Fort Orange common stock will be given the opportunity to receive, for their shares of Fort Orange common stock: (i) all cash in the amount of $7.50 per share, without interest ("Cash Consideration"); (ii) all Chemung Financial common stock, at an exchange ratio of 0.3571 of a share of Chemung Financial common stock for each share of Fort Orange common stock ("Stock Consideration") or (iii) a mix of Cash Consideration for 25% of their shares and Stock Consideration for 75% of their shares. The exchange ratio of 0.3571 share of Chemung Financial stock for one share of Fort Orange stock is subject to downward adjustment if the Chemung Financial common stock Closing Price at the time the Merger is completed exceeds $25.20 per share. In addition, the Cash Consideration of $7.50 per share and the Stock Consideration exchange ratio of 0.3571 are each subject to downward adjustment on a sliding scale as described in the Merger Agreement if the delinquent loans in the Fort Orange loan portfolio increase prior to completion of the Merger.

The total consideration to be paid by Chemung Financial for the Merger is subject to the requirement that 25% of the Fort Orange common stock be acquired for the Cash Consideration and that 75% be acquired for the Stock Consideration. This may cause Fort Orange Shareholders who elect either only Cash Consideration or only Stock Consideration for their shares to receive a mix of the two on a prorated basis in accordance with allocation provisions in the Merger Agreement.

The value of the Stock Consideration will fluctuate with the market price of Chemung Financial common stock. Based on the closing price of Chemung Financial common stock, as reported by the Over-the-Counter Bulletin Board (the "OTCBB"), on October 14, 2010, the last trading day before public announcement of the Merger Agreement, the aggregate value of the Stock Consideration and Cash Consideration represented approximately $7.63 in value for each share of Fort Orange common stock. You should obtain current stock price quotations for Chemung Financial and Fort Orange common stock. Chemung Financial common stock trades over-the-counter on the OTCBB under the symbol "CHMG.OB" and Fort Orange common stock trades over-the-counter on Pinksheets.com under the symbol "FOFC".

These pro forma financial statements are prepared based on the assumption that the consideration will be paid 75% in Chemung Financial common shares and 25% cash. Additional transaction costs to be incurred in the Merger are assumed to be $425 thousand for Chemung Financial. These costs are associated with legal, accounting, and due diligence fees directly related to the Merger and are not expected to have a continuing impact on operations and therefore have not been included in the unaudited condensed combined pro forma statement of operations. In connection with the Merger, Chemung Financial and Fort Orange have begun to further develop their preliminary plans to consolidate the operations of Chemung Financial and Fort Orange. Over the next several months, the specific details of these plans will be refined. Chemung Financial and Fort Orange are currently in the process of assessing the two companies' personnel, benefit plans, premises, equipment, computer systems and service contracts to determine where the company may take advantage of redundancies or where it will be beneficial or necessary to convert to one system. Certain decisions arising from these assessments may involve canceling contracts between either Chemung Financial and Fort Orange and certain service providers. The costs associated with such decisions will be recorded as

expense as incurred and have not been included in the pro forma adjustments to the unaudited pro forma condensed combined statement of operations.

Basis of Presentation.

The unaudited pro forma condensed combined financial statements have been prepared based on Chemung Financial's and Fort Orange's historical financial information. Certain disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted as permitted by SEC rules and regulations.

These unaudited pro forma condensed combined financial statements are not necessarily indicative of the results of operations that would have been achieved had the Merger actually taken place at the dates indicated and do not purport to be indicative of future financial condition or operating results.

The unaudited pro forma condensed combined financial statements give effect to the proposed Merger as if the Merger occurred on September 30, 2010 with respect to the balance sheet, and on January 1, 2010 and January 1, 2009 with respect to the statements of operations for the nine months ended September 30, 2010 and the year ended December 31, 2009, respectively. The unaudited pro forma condensed combined financial statements were prepared with Chemung Financial treated as the acquirer and Fort Orange as the acquiree under the acquisition method of accounting. Accordingly, the consideration paid by Chemung Financial to complete the Merger will be allocated to Fort Orange's assets and liabilities based upon their estimated fair values as of the date of completion of the Merger. The allocation is dependent upon certain valuations and other studies that have not been finalized at the time of the Merger announcement; however, preliminary valuations based on the fair value of the acquired assets and liabilities have been estimated and included in the unaudited pro forma condensed combined financial statements. At the time of closing the Merger, the allocation process will have progressed to a stage where there will be sufficient information to make a definitive allocation. As such, the fair values of Fort Orange's assets and liabilities will be finalized based upon their relative fair values as of the closing date. There can be no assurance that the final determination will not result in material changes.

Acquisition Method.

The unaudited pro forma condensed combined financial statements reflect the accounting for the transaction under the acquisition method in accordance with AS 805. Under the acquisition method, the purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair values, with any excess of the purchase price over the estimated fair value of the identifiable net assets acquired recorded as goodwill.

Chemung Financial will obtain a third party valuation for the assets acquired and liabilities assumed, and will refine fair value estimates when the valuation is completed as of the closing date. As a result of this acquisition, Chemung Financial will pay a premium in the transaction. Chemung Financial believes the premium to acquire Fort Orange is warranted as it allows Chemung Financial to gain market share and acquire loans and core deposits and franchise value while avoiding many of the costs associated with aggressive marketing, promotional pricing efforts, and de novo branching.

In accordance with AS 805, Chemung Financial will not recognize a separate loan loss reserve valuation allowance as of the acquisition date for the loans acquired. Instead, the loans are measured at their estimated acquisition date fair values and the effects of uncertainty about future cash flows are included in the fair value measure.

The total estimated purchase price of for the purpose of this pro forma financial information is $29.3 million. The following table provides the calculation and allocation of the purchase price used in the pro forma financial statements and a reconcilement of pro forma shares to be outstanding:

Summary of Purchase Price Calculation and Goodwill Resulting from Merger
And Reconciliation of Pro Forma Shares Outstanding at September 30, 2010

(Dollar amounts in thousands, except per share data)							September 30, 2010
Purchase Price Consideration - Common Stock							
Total Fort Orange shares outstanding		3,701,064					
Directors’ deferred stock units		5,516					
Restricted stock shares (vest with change in control)		62,265					
Total Fort Orange shares				3,768,845			
Percentage of cash consideration				25	%		
Fort Orange shares exchanged for cash				942,211			
Purchase price per Fort Orange common share			$	7.50			
Purchase price assigned to shares exchanged for cash						$	7,067
Total Fort Orange shares				3,768,845			
Percentage of stock consideration				75	%		
Fort Orange shares exchanged for stock				2,826,634			
Exchange ratio				0.3571			
Chemung Financial shares to be issued to Fort Orange shareholders				1,009,391			
Purchase price per Chemung Financial common share			$	21.50			
							21,702
Total Fort Orange stock options to be settled for cash				285,711			
Purchase price per Fort Orange common share	$	7.63					
Weighted average exercise price	$	5.70					
Difference			$	1.93			
Total payout related to outstanding stock options							551
Total purchase price						$	29,320
Net Assets Acquired:							
Fort Orange shareholders' equity				22,641			
Less: Fort Orange's goodwill and core deposit intangible				—			
				22,641			
Fort Orange transaction expenses prior to closing				(298	)		
Estimated adjustments to reflect assets acquired at fair value:							
Loans				4,448			
Allowance for loan losses				3,151			

Other intangible assets	3,290		
Deferred tax assets	(2,410	)	
Estimated adjustments to reflect liabilities acquired at fair value:			
Time deposits	(2,150	)	
Borrowings	(2,509	)	
			26,163
Goodwill resulting from merger		$	3,157

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Reconcilement of Pro Forma Shares Outstanding		
Total Fort Orange shares	3,768,845	
Percentage of stock consideration	75	%
Fort Orange shares exchanged for stock	2,826,634	
Exchange ratio	0.3571	
Chemung Financial shares to be issued to Fort Orange shareholders	1,009,391	
Chemung Financial shares outstanding	3,602,635	
Pro Forma Chemung Financial shares outstanding	4,612,026	
Pro Forma % ownership by Fort Orange	22	%
Pro Forma % ownership by Chemung Financial	78	%

Pro Forma Adjustments and Assumptions.

A) Adjustment to reflect payment of various non-recurring items directly attributable to the closing of the transaction.

B) Adjustment to reflect the cash consideration paid out to Fort Orange shareholders who elected the Cash Consideration option and for stock options to be cashed out.

C) Adjustments to reflect the fair value of loans include:

Adjustment of $4.448 million to reflect fair values of loans based on current interest rates of similar loans and on the credit quality of the loan portfolio. The credit quality component was based on an analysis of the loan portfolio to identify loans which evidenced deterioration of credit quality since origination and which it was determined that it was probable, at acquisition, that the collection of all contractually required payments receivable would not be possible. The portion of the adjustment based on current interest rates will be recognized using a level yield method over the estimated life of the loans of seven years. This adjustment is expected to decrease pro forma pre-tax interest income by $1.085 million in the first full year following consummation.

Adjustment of $3.151 million to reflect the removal of the allowance for loan losses in connection with applying acquisition accounting under AS 805.

D) Adjustment to reflect the pro forma goodwill of $3.157 million, representing the excess of the purchase price over the fair value of net assets to be acquired.

E) Adjustment of $3.290 million to core deposit intangible to reflect the fair value of this asset and the related amortization adjustment based upon an expected life of ten years and using a level yield method. The amortization of the core deposit intangible is expected to increase pro forma pre-tax non-interest expense by $598 thousand in the first full year following consummation.

F) Adjustment to reflect the net deferred tax at a blended federal and state rate of 38.686% related to fair value adjustments on the balance sheet. It is noted that a tax benefit was not taken for certain Merger obligations and costs that were considered to be not tax deductible.

G) Adjustment of $2.150 million to reflect the fair values of interest-bearing time deposit liabilities based on current interest rates for similar instruments. This purchase price discount will be accreted as a reduction to interest expense using a level yield method over the estimated life of three years. This adjustment is expected to decrease pro forma

pre-tax interest expense by $1.075 million in the first full year following consummation.

H) Adjustment of $2.509 million to reflect the fair values of long-term debt which consists of FHLB advances at various terms and maturities. This purchase price discount will be accreted to income using a level yield method over the estimated life of three years. This adjustment is expected to decrease pro forma pre-tax interest expense by $836 thousand in the first full year following consummation.

I) Adjustments to reflect the issuance of common shares of Chemung Financial common stock with a par value of $0.01 per share in connection with the Merger and the elimination of Fort Orange equity accounts.

J) Adjustment to reflect the pro forma interest cost associated with funding the proposed transaction at 2.25%.

Comparative Pro Forma Per Share Data

	As of/For the Nine Months Ended September 30, 2010	As of/For the Year Ended December 31, 2009
Earning per common share:		
Basic		
Chemung Financial historical	$ 1.96	$ 1.45
Fort Orange historical	0.25	0.21
Pro forma combined	1.74	1.31
Pro forma equivalent of one Fort Orange common share	0.62	0.47
Diluted		
Chemung Financial historical	$ 1.96	$ 1.45
Fort Orange historical	0.25	0.21
Pro forma combined	1.74	1.31
Pro forma equivalent of one Fort Orange common share	0.62	0.47
Cash Dividends declared per common share:		
Chemung Financial historical	$ 0.75	$ 1.00
Fort Orange historical	—	—
Pro forma combined	0.75	1.00
Pro forma equivalent of one Fort Orange common share	0.27	0.36
Shareholders’ equity per common share:		
Chemung Financial historical	$ 27.01	$ 24.97
Fort Orange historical	6.11	5.80
Pro forma combined	25.70	23.83
Pro forma equivalent of one Fort Orange common share	9.18	8.51

Comparison of Shareholder Rights

Fort Orange is incorporated under the laws of the State of Delaware and Chemung Financial is incorporated under the laws of the State of New York. Upon completion of the Merger, the certificate of incorporation and bylaws of Chemung Financial in effect immediately prior to the Effective Time will be the certificate of incorporation and bylaws of the combined company. Consequently, the rights of Fort Orange shareholders who receive shares of Chemung Financial common stock as a result of the Merger will be governed by New York law, Chemung Financial's certificate of incorporation and Chemung Financial's bylaws. The following discussion summarizes certain material differences between the rights of holders of Fort Orange common stock and Chemung Financial common stock resulting from the differences in their governing documents and Delaware and New York law.

This discussion does not purport to be a complete statement of the rights of holders of Chemung Financial common stock under applicable New York law, Chemung Financial's certificate of incorporation and Chemung Financial's bylaws or the rights of holders of Fort Orange common stock under applicable Delaware law, Fort Orange's amended and restated certificate of incorporation, which we refer to as the certificate of incorporation of Fort Orange, and Fort Orange's bylaws and is qualified in its entirety by reference to the governing corporate documents of Chemung Financial and Fort Orange and applicable law. See "Where You Can Find More Information" beginning on page 1.

Board of Directors.

Fort Orange. The DGCL provides that the board of directors of a Delaware corporation must consist of one or more directors. The certificate of incorporation or bylaws of a corporation may fix the number of directors. Fort Orange's certificate of incorporation provides that the number of directors shall be no less than three (3) nor more than twenty (20). Fort Orange currently has seven (7) directors. Fort Orange's board of directors is divided into three classes, with each class comprising as near as possible to one-third of the total number of directors. One class is elected at each annual meeting for a three-year term.

Chemung Financial. New York law states that the board of directors must consist of one or more directors. The number of directors constituting the board may be fixed by the bylaws, or by action of the shareholders or of the board under the specific provisions of a bylaw adopted by the shareholders. Chemung Financial's current bylaws provide that the board of directors shall consist of fifteen (15) members. If the Merger is completed, Chemung Financial's board will be increased to seventeen (17) directors pursuant to the Merger Agreement. Chemung Financial's board of directors is divided into three classes, which shall be nearly as equal in number as possible. One class is elected at each annual meeting for a three-year term.

Removal of Directors.

Fort Orange. As described above under "Board of Directors," Fort Orange has a classified board of directors. Under the DGCL, unless the certificate of incorporation provides otherwise, in a corporation with a classified board of directors any director or the entire board of directors may be removed only for cause and by the holders of a majority of the shares then entitled to vote at an election of directors. Fort Orange's certificate of incorporation provides that a director may be removed prior to the expiration of his or her term only for cause and only upon the affirmative vote of at least 75% of the outstanding shares of voting stock. No director can be removed without cause.

Chemung Financial. As described above under "Board of Directors," Chemung Financial has a classified board of directors. New York law states that, subject to certain conditions, any or all of the directors may be removed for cause by vote of the shareholders, and, if the certificate of incorporation or the specific provisions of a bylaw adopted by the shareholders so provides, directors may be removed by action of the board of directors. Both the certificate of incorporation and the bylaws of Chemung Financial provide that any director or the entire board of directors of

Chemung Financial may be removed with or without cause at any time by the affirmative vote of at least 75% of the shares of Chemung Financial common stock outstanding.

Filling Vacancies on the Board of Directors.

Fort Orange. The DGCL and Fort Orange's certificate of incorporation provide that all vacancies, including vacancies resulting from newly created directorships due to an increase in the number of directors, may be filled only by a vote of a majority of directors then holding office, whether or not that number constitutes a quorum. Any director so elected shall serve for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor is elected and qualified.

Chemung Financial. Under New York law, vacancies occurring by reason of removal of directors without cause may be filled by vote of the board. Vacancies occurring on the board of directors by reason of the removal of directors with cause or newly created directorships may be filled only by vote of the shareholders unless the certificate of incorporation or bylaws provide otherwise. Pursuant to the certificate of incorporation and the bylaws of Chemung Financial, vacancies on the board of directors, whether caused by resignation, death, removal or otherwise, shall be filled by majority vote of the remaining directors. Pursuant to New York law, a director elected to fill a vacancy, unless elected by the shareholders, shall hold office until the next meeting of shareholders at which the election of directors is in the regular order of business, and until such director's successor has been elected and qualified.

Amendment of Certificate of Incorporation.

Fort Orange. Fort Orange's certificate of incorporation provides generally that any alteration, amendment, repeal or rescission of any provision of the certificate of incorporation may be made pursuant to the DGCL by the affirmative vote of a majority of the total votes eligible to be cast by the holders of all outstanding shares of capital stock entitled to vote thereon; provided, that any alteration, amendment, repeal or rescission of any provision of Article VII (Preemptive Rights), Article VIII (Cumulative Voting; Meetings of Shareholders), Article IX (Directors), Article X (Removal of Directors), Article XI (Certain Limitations on Voting Rights), Article XII (Approval of Business Combinations), Article XIII (Evaluation of Offers), Article XIV (Elimination of Directors' Liability), Article XV (Indemnification), Article XVI (Amendment of Bylaws) or Article XVII (Amendment of Certificate of Incorporation) require the affirmative vote of not less than 75% of the outstanding shares of Fort Orange common stock.

Chemung Financial. Under New York law, subject to limited exceptions, amendments to the certificate of incorporation must be approved by a vote of a majority of all outstanding shares entitled to vote on the proposed amendment, except that mergers and consolidations require the affirmative vote of at least 66 2/3% of the outstanding shares entitled to vote. The affirmative vote of at least 75% of the outstanding shares entitled to vote is require to authorize certain business combinations involving a 20% or more shareholder.

In addition, under Chemung Financial's certificate of incorporation, the affirmative vote of at least 75% of the outstanding voting stock is required to amend certain provisions of Chemung Financial's certificate of incorporation governing business combinations and other material transactions with a shareholder owning 10% or more of the outstanding voting stock of Chemung Financial and its dissolution at any time, when there is a 10% or more shareholder.

Amendment of Bylaws.

Fort Orange. Fort Orange's certificate of incorporation provides that the board of directors is authorized to make, alter, amend, rescind or repeal any of the bylaws. In addition, Fort Orange's certificate of incorporation provides that any bylaw may be altered, amended, rescinded or repealed in accordance with the terms of the bylaws by the holders of 75% of the outstanding capital stock.

Chemung Financial. New York law provides that the bylaws of a business corporation may be amended or repealed by a majority of the votes cast by all shares at the time entitled to vote generally in the election of directors; however, if so provided in the certificate of incorporation or a bylaw adopted by the shareholders, bylaws may also be adopted, amended or repealed by the board of directors by such vote as may be therein specified, but any bylaw adopted by the board of directors may be amended or repealed by the shareholders entitled to vote thereon, as described in the preceding sentence.

Chemung Financial's bylaws provide that the bylaws may be amended, added to or repealed by the board of directors; provided, that any amendment or repeal of the provisions of Article III thereof (Directors) requires the affirmative vote of a majority of the entire board and any amendment or repeal of the provisions of Article VI, Section 1 (Issuance of Shares) requires the affirmative vote of 80% of the entire board. The bylaws may also be amended, added to or repealed by a majority vote of the shareholders entitled to vote generally in the election of directors; provided, that any amendment or repeal of the provisions of Article III thereof requires the affirmative vote of at least 75% of the issued and outstanding stock entitled to vote generally in the election of directors.

Notice of Shareholder Meetings.

Fort Orange. Under the DGCL, written notice of any shareholders' meeting must be given to each shareholder entitled to vote not less than 10 nor more than 60 days prior to the date of the meeting. Fort Orange's bylaws provide that written notice of any shareholders' meeting must be given not less than 10 nor more than 50 days before the meeting date.

Chemung Financial. Under the New York Business Corporation Law ("NYBCL"), written notice of any shareholders' meeting must be given to each shareholder entitled to vote not less than 10 nor more than 60 days before the meeting date; provided, that if notice is given by third class mail, such notice must be given not less than 24 nor more than 60 days prior to the meeting date. Chemung Financial's by laws provide that written notice of shareholders' meetings must be given not less than 10 nor more than 60 days prior to the meeting date.

Right to Call a Special Meeting of Shareholders.

Fort Orange. Under the DGCL, a special meeting of shareholders may be called by (i) the board of directors or (ii) any other person authorized to do so in the certificate of incorporation or the bylaws. Fort Orange's bylaws authorize the calling of a special meeting of shareholders by: (a) the chairman of the board; (b) the president; (c) one-third of the members of the board of directors; (d) a committee designated by the board of directors and delegated the power and authority to call such meetings; or (e) the holders of at least 25% of the outstanding voting shares.

Chemung Financial. Under New York law, a special meeting of shareholders may be called by (i) the person or persons authorized to do so by the certificate of incorporation or bylaws or (ii) the board of directors. Chemung Financial's bylaws authorize the calling of a special meeting of shareholders by the president or a majority of the board of directors.

Shareholder Nominations and Proposals.

Fort Orange. Fort Orange's bylaws require a shareholder who intends to nominate any person for election as director at any annual meeting to give notice to the secretary no less than 60 days prior to the anniversary of the previous annual meeting. Neither Fort Orange's certificate of incorporation nor its bylaws set forth provisions regarding the procedure for the submission of shareholder proposals in advance of shareholder meetings.

Chemung Financial. The bylaws of Chemung Financial require a shareholder who intends to nominate a candidate for election to the board of directors at an annual shareholders' meeting to give not less than 120 days' notice in advance of the mailing of the proxy statement for such annual shareholders' meeting to the secretary. In the event that the nomination is for election at other than an annual meeting, then reasonable notice must be given. This advance notice provision requires a shareholder who wishes to nominate any person for election as a director to provide certain information to Chemung Financial concerning the nominee and the proposing shareholder.

Indemnification of Officers, Directors and Employees.

Fort Orange. Under Section 145 of the DGCL, a corporation may indemnify a director, officer, employee or agent of the corporation (or a person who is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. In the case of an action brought by or in the right of a corporation, the corporation may indemnify a director, officer, employee or agent of the corporation (or a person who is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) against expenses (including attorneys' fees) actually and reasonably incurred by him if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification may be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent a court finds that, in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnification for such expenses as the court shall deem proper. The indemnification provisions of the DGCL require indemnification of a director or officer who has been successful on the merits in defense of any action, suit or proceeding that he was a party to by virtue of the fact that he is or was a director or officer of the corporation.

The certificate of incorporation of Fort Orange provides that Fort Orange shall indemnify, to the extent permitted therein, any person who is or was, or serves or has served at the request of Fort Orange as, a director officer, employee or agent of Fort Orange against expenses actually and reasonably incurred by such person. This indemnification is conditioned upon the director or officer having acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interest of Fort Orange and, with respect to any criminal proceeding, had no reasonable cause to believe that his or her conduct was unlawful. The certificate of incorporation also provides that Fort Orange shall indemnify any present or former director or officer of Fort Orange to the extent such person has been successful, on the merits or otherwise (including, without limitation, the dismissal of an action without prejudice), in defense of any action, suit or proceeding against all costs, charges and expenses actually and reasonably incurred by such person.

Chemung Financial. Under Section 722 of the NYBCL, a corporation may indemnify its directors and officers made, or threatened to be made, a party to any action or proceeding related to service as a director or officer, except for shareholder derivative suits, if the director or officer acted in good faith and for a purpose that he or she reasonably believed to be in, or, in the case of service to another corporation or enterprise, not opposed to, the best interests of the corporation and, in addition in criminal proceedings, had no reasonable cause to believe his or her conduct was unlawful. In the case of shareholder derivative suits, the corporation may indemnify a director or officer if he or she acted in good faith for a purpose that he or she reasonably believed to be in or, in the case of service to another corporation or enterprise, not opposed to the best interests of the corporation, except that no indemnification may be made in respect of (i) a threatened action, or a pending action that is settled or otherwise disposed of or (ii) any claim, issue or matter as to which such individual has been adjudged to be liable to the corporation, unless, and only to the extent, that the court in which the action was brought or, if no action was brought, any court of competent jurisdiction, determines, upon application, that, in view of all the circumstances of the case, the individual is fairly and reasonably entitled to indemnity for the portion of the settlement amount and expenses as the court deems proper.

Any individual who has been successful on the merits or otherwise in the defense of a civil or criminal action or proceeding will be entitled to indemnification. Except as provided in the preceding sentence, unless ordered by a court pursuant to Section 724 of the NYBCL, any indemnification under the NYBCL as described in the immediately preceding paragraph may be made only if, pursuant to Section 723 of the NYBCL, indemnification is authorized in the specific case and after a finding that the director or officer met the requisite standard of conduct by the disinterested directors if a quorum is available, or, if the quorum so directs or is unavailable, by (i) the board of directors upon the written opinion of independent legal counsel or (ii) the shareholders. Further, New York law permits a corporation to purchase directors and officers liability insurance.

Chemung Financial’s certificate of incorporation provides that any person made or threatened to be made a party to any action or proceeding, whether civil or criminal, by reason of the fact that he is or was a director or officer of Chemung Financial shall be indemnified by Chemung Financial against judgments, fines, amounts paid in settlement and reasonable expenses, including attorneys’ fees actually and necessarily incurred as a result of such action or proceeding, or any appeal therein, to the fullest extent permitted by New York law.

Anti-Takeover Provisions.

Fort Orange. Under the DGCL, a corporation is prohibited from engaging in any business combination with an interested stockholder for a period of three years from the date on which the stockholder first becomes an interested stockholder unless:

- prior to the stockholder becoming an interested stockholder, the board of directors approves the business combination or the transaction in which the stockholder became an interested shareholder;

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upon the completion of the transaction in which the shareholder became an interested stockholder, the interested stockholder owns at least 85% of the voting stock of the corporation other than shares held by directors who are also officers and certain employee stock plans; or

the business combination is approved by the board of directors and by the affirmative vote of two-thirds of the outstanding voting stock not owned by the interested stockholder at a meeting.

The DGCL defines the term "business combination" to include transactions such as mergers, consolidations, transfers of 15% or more of the assets of the corporation or, with certain exceptions, transactions that result in stock of the corporation being issued or transferred to the interested stockholder. The DGCL defines the term "interested stockholder" generally as any person who (together with affiliates and associates) owns (or in certain cases, within the past three years owned) 15% or more of the outstanding voting stock of the corporation. A corporation can expressly elect not to be governed by the DGCL's business combination provisions in its certificate of incorporation or bylaws, but Fort Orange has not done so.

The certificate of incorporation of Fort Orange requires the approval of the holders of 75% of Fort Orange's outstanding shares of voting stock, to approve certain "business combinations" (as defined in Fort Orange's certificate of incorporation) and related transactions with a principal shareholder that would result in Fort Orange or its subsidiaries being merged into or with another corporation, a reorganization of Fort Orange or a sale by Fort Orange of all or a substantial part of its assets, or any reclassification of Fort Orange's securities or adoption of a plan of liquidation nor dissolution when there is a principal shareholder, except in cases where the proposed transaction has been approved in advance by two-thirds of the entire board of directors. The term "principal shareholder" refers to a shareholder who, individually or together with others as part of a group, as described in Rule 13d under the Securities Exchange Act of 1934, as amended (the "Exchange Act") owns or controls at least 10% of the outstanding shares of Fort Orange stock. In addition, Fort Orange's certificate of incorporation restricts a shareholder's ability to vote any shares held in excess of 10% of the total outstanding shares of Fort Orange stock.

Chemung Financial. Section 912 of the NYBCL generally provides that a New York corporation may not engage in a business combination with an interested shareholder for a period of five years following the interested shareholder's becoming such. Such a business combination would be permitted where it is approved by the board of directors before the interested shareholder's becoming such. Covered business combinations include certain mergers and consolidations, dispositions of assets or stock, plans for liquidation or dissolution, reclassifications of securities, recapitalizations and similar transactions. An interested shareholder is generally a shareholder owning at least 20% of a corporation's outstanding voting stock. In addition, New York corporations may not engage at any time with any interested shareholder in a business combination other than: (i) a business combination approved by the board of directors before the interested shareholder acquired a 20% or more interest in the corporation, or where the interested shareholder's acquisition of its 20% interest was approved in advance by the board of directors; (ii) a business combination approved by the affirmative vote of the holders of a majority of the outstanding voting stock not beneficially owned by the interested shareholder at a meeting called for that purpose no earlier than five years after the interested shareholder acquired its 20% interest; or (iii) a business combination in which the interested shareholder pays a formula price designed to ensure that all other shareholders receive at least the highest price per share that is paid by the interested shareholder and that meets certain other requirements.

A corporation may opt out of the interested shareholder provisions of Section 912 by expressly electing not to be governed by such provisions in its bylaws, provided, that any such provision must be approved by the affirmative vote of a majority of the outstanding voting stock of such corporation and is subject to further conditions. Chemung Financial's bylaws do not contain any provisions electing not to be governed by Section 912.

Chemung Financial's certificate of incorporation restricts Chemung Financial's ability to enter into certain business combinations or other material transactions with a major shareholder unless: (i) the transaction is approved by the board of directors prior to the major shareholder's becoming a major shareholder; (ii) the major shareholder obtained the approval of 75% of the entire Chemung Financial board of directors as required to become a major shareholder and the transaction is approved by a majority of the board of directors (including their designees) who were on the board prior to the major shareholder's becoming a major shareholder; or (iii) the transaction is approved by a majority of the outstanding voting shares held by shareholders who are not major shareholders. The term "major shareholder" refers to a shareholder who, together with its "affiliates" and "associates" (as defined in Rule 12b-2 under the Securities Act of 1933, as amended (the "Securities Act")) owns 10% or more of the outstanding voting stock of Chemung Financial.

Shareholder Approval of a Merger.

Fort Orange. Under the DGCL, a merger must be approved by the board of directors and by a majority (unless the certificate of incorporation requires a higher percentage) of the outstanding stock of the corporation entitled to vote. However, no vote of shareholders of a constituent corporation surviving a merger is required (unless the corporation provides otherwise in its certificate of incorporation) if: (i) the merger agreement does not amend such constituent corporation's certificate of incorporation; (ii) each share of stock of such constituent corporation outstanding immediately before the merger is to be an identical outstanding or treasury share of the surviving corporation after the merger; and (iii) the number of shares to be issued by the surviving corporation in the merger does not exceed 20% of the shares of such constituent corporation outstanding immediately before the merger. Fort Orange's certificate of incorporation requires the affirmative vote of 75% of the outstanding shares of Fort Orange stock for approval of certain business combinations with a 10% shareholder, including a merger, consolidation, reorganization or sale of all or a substantial portion of Fort Orange's assets.

Chemung Financial. Under Section 903 of the NYBCL, the consummation by a corporation of a merger or consolidation requires the approval of the board of directors and (i) a majority of the votes of all outstanding shares entitled to vote thereon for corporations in existence on February 22, 1998 where the certificate of incorporation expressly provides therefor, or corporations incorporated after February 22, 1998, and (ii) two-thirds of the votes of all outstanding shares entitled to vote thereon, for all other corporations.

Because Chemung Financial was incorporated prior to February 22, 1998 and its certificate of incorporation does not provide for a majority of the votes to be sufficient for the approval of a merger, the vote of two-thirds of all outstanding shares of Chemung Financial are required for the approval of a merger. Chemung Financial's certificate of incorporation requires the affirmative vote of 75% of the outstanding Chemung Financial stock for approval of certain business combinations with 10% shareholders.

Shareholder Action Without A Meeting.

Fort Orange. Under the DGCL, unless otherwise provided in a corporation's certificate of incorporation, any action that may be taken at a meeting of shareholders may be taken without a meeting, without prior notice and without a vote if the holders of outstanding stock, having not less than the minimum number of votes that would be necessary to authorize such action, consent in writing. The certificate of incorporation of Fort Orange does not address shareholder action by written consent; therefore, most shareholder actions can be taken by less than unanimous written consent.

Chemung Financial. Under New York law, whenever shareholders are required or permitted to take any action by vote, such action may, in lieu of a meeting, be taken by unanimous written consent of holders of all outstanding shares entitled to vote on such action. If the certificate of incorporation so permits, any such action may be taken by written consent of the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Chemung Financial's certificate of incorporation does not address actions by written consent; therefore any such action can be taken only by unanimous written consent.

Dissenters' Rights.

Fort Orange. Under the DGCL, a shareholder of a corporation participating in certain major corporate transactions may, under varying circumstances, be entitled to appraisal rights pursuant to which the shareholder may receive cash in the amount of the fair market value of his or her shares in lieu of the consideration he or she would otherwise receive in the transaction. Unless a corporation's certificate of incorporation provides otherwise, these appraisal rights are not available:

with respect to the sale, lease or exchange of all or substantially all of the assets of the corporation;

with respect to a merger or consolidation by a corporation the shares of which either are listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or are held of record by more than 2,000 holders, if the terms of the merger or consolidation allow the shareholders to receive only shares of the surviving corporation or shares of any other corporation that either are listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or are held of record by more than 2,000 holders, plus cash in lieu of fractional shares; or

to shareholders of the corporation surviving a merger if no vote of the shareholders of the surviving corporation is required to approve the merger and if some other conditions are met.

Chemung Financial. Under New York law, shareholders may, under certain circumstances, exercise a right of dissent from certain limited corporate actions and obtain payment for the fair value of their shares. For example, subject to certain exceptions, dissenters' rights are available under New York law to any shareholder of a constituent corporation in the event of a merger if such shareholder is entitled to vote upon the merger or if the corporation is a subsidiary that is merged with its parent. One of the exceptions under New York law to the general rule described in the preceding sentence, that a shareholder has dissenters' rights with respect to a merger if such shareholder is entitled to vote upon the merger, is that, under New York law, a shareholder does not have dissenters' rights with respect to a merger if, on the record date, the stock held by such shareholder is listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. Neither Chemung Financial's certificate of incorporation nor its bylaws grant any dissenters' rights in addition to the statutorily prescribed rights.

Shareholders who desire to exercise their dissenters' rights must satisfy all of the conditions and requirements set forth in the NYBCL in order to maintain these rights and obtain any payment due in respect of the exercise of these rights.

Dividends.

Fort Orange. Fort Orange can pay dividends out of statutory surplus, or in case there is no such surplus, from net profits if, as and when declared by the board of directors. The holders of Fort Orange common stock will be entitled to receive and share equally in such dividends as may be declared by the board of directors out of funds legally available. If Fort Orange issues preferred stock, the holders of the preferred stock may have a priority over the holders of the common stock with respect to dividends.

Chemung Financial. Under New York law, a corporation may declare and pay dividends or make other distributions, except when the corporation is currently insolvent or would thereby be made insolvent, or when the declaration, payment or distribution would be contrary to any restrictions contained in the certificate of incorporation. Neither Chemung Financial's certificate of incorporation nor Chemung Financial's bylaws address dividends.

Description of Capital Stock of Fort Orange

Fort Orange's certificate of incorporation authorizes 10,000,000 shares of common stock, par value $.10 per share, and 1,000,000 shares of preferred stock, par value $.10 per share. As of January 19, 2011 , the most recent practicable trading day before this joint proxy statement/prospectus was finalized, there were 3,742,303 shares of Fort Orange common stock issued, of which 3,702,312 were outstanding and 39,991 were held in treasury.

Description of Capital Stock of Chemung Financial

Chemung Financial is authorized to issue 10,000,000 shares of common stock, par value $0.01 per share. As of January 19, 2011 , the most recent practicable trading day before this joint proxy statement/prospectus was finalized, there were 4,300,134 shares of Chemung Financial common stock issued, of which 3, 560,918 were outstanding and 739,216 were held in treasury. Chemung Financial has no authority to issue preferred stock. Each share of Chemung Financial common stock has the same relative rights as, and is identical in all respects with, each other share of common stock.

The common stock of Chemung Financial represents non-withdrawable capital, is not an account of an insurable type, and is not insured by the FDIC or any other government agency.

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Common Stock.

Dividends. Chemung Financial may pay dividends out of statutory surplus or from net earnings if, as and when declared by its board of directors. The payment of dividends by Chemung Financial is subject to limitations that are imposed by law and applicable regulation. The holders of common stock of Chemung Financial will be entitled to receive and share equally in dividends as may be declared by the board of directors of Chemung Financial out of funds legally available therefor.

Voting Rights. The holders of common stock of Chemung Financial have exclusive voting rights in Chemung Financial. They elect Chemung Financial's board of directors and act on other matters as are required to be presented to them under New York law, or as are otherwise presented to them by the board of directors. Generally, each holder of common stock is entitled to one vote per share and will not have any right to cumulate votes in the election of directors.

Liquidation. In the event of liquidation, dissolution or winding up of Chemung Financial, the holders of its common stock would be entitled to receive, after payment or provision for payment of all its debts and liabilities, all of the assets of Chemung Financial available for distribution.

Preemptive Rights. Holders of Chemung Financial common stock will not be entitled to preemptive rights with respect to any shares that may be issued. The common stock is not subject to redemption.

Certificate of Incorporation and Bylaws of Chemung Financial;
Certain Anti-Takeover Restrictions

The following discussion is a general summary of the material provisions of Chemung Financial's certificate of incorporation and bylaws and certain other regulatory provisions that may be deemed to have an "anti-takeover" effect. The following description of certain of these provisions is necessarily general and, with respect to provisions contained in Chemung Financial's certificate of incorporation and bylaws, reference should be made in each case to the document in question.

Chemung Financial's certificate of incorporation and bylaws contain certain provisions relating to corporate governance and rights of shareholders that might discourage future takeover attempts. As a result, shareholders who might desire to participate in such transactions may not have an opportunity to do so. In addition, these provisions will also render the removal of the board of directors or management of Chemung Financial more difficult.

The following description is a summary of the provisions of the certificate of incorporation and bylaws. See "Where You Can Find More Information" as to how to obtain a copy of these documents.

Directors.

The board of directors is divided as evenly as possible into three classes. One class is elected at each annual meeting of shareholders for a term of three years. Thus, it would take at least two annual elections to replace a majority of Chemung Financial's board of directors. Under the bylaws, only shareholders owning at least 1% or $2,000 in market value of shares entitled to vote for at least one year prior to and through the date of the meeting may submit a shareholder proposal for consideration at a shareholders' meeting. Further, the bylaws impose notice and information requirements in connection with the nomination by shareholders of candidates for election to the board of directors or the proposal by shareholders of business to be acted upon at an annual meeting of shareholders.

Restrictions on Call of Special Meetings.

Chemung Financial's bylaws provide that special meetings of shareholders can be called by the board of directors, the chairman of the board or the president. Neither the certificate of incorporation nor the bylaws authorize shareholders to call a special meeting.

Restrictions on Removing Directors from Office.

The certificate of incorporation provides that directors can be removed with or without cause, but only by the affirmative vote of the holders of at least 75% of the outstanding common stock entitled to vote.

Restrictions on Certain Business Combinations.

The certificate of incorporation restricts Chemung Financial’s ability to enter into certain business combinations or other material transactions with a major shareholder unless: (i) the transaction is approved by the board of directors prior to the major shareholder’s becoming a major shareholder; (ii) the major shareholder obtained approval of 75% of the entire board of directors to become a major shareholder and the transaction is approved by a majority of the directors (including their designees) who were on the board prior to the major shareholder becoming a major shareholder; or (iii) the transaction is approved by a majority of the outstanding voting shares held by non-interested shareholders. The term “major shareholder” refers to a shareholder who, together with its “affiliates” and “associates” (as defined in Rule 12b-2 under the Securities Act), owns 10% or more of the outstanding voting stock of Chemung Financial or any affiliate or associate of such shareholder.

Amendments to Certificate of Incorporation and Bylaws.

Amendments to Chemung Financial’s certificate of incorporation must be approved by Chemung Financial’s board of directors and also by a majority of the outstanding shares of Chemung Financial’s voting stock; provided, however, that approval by 75% of the outstanding voting stock is generally required to amend any of the following provisions:

- provisions fixing the number, qualifications, retirement age or other restrictions with respect to directors ;
- provisions regarding the removal of directors or the filling of vacancies on the board;
- provisions regarding the classes and terms of election of directors;
- provisions regarding corporate action without a meeting, committees and compensation of directors;
- provisions regarding interested directors; or
- provisions regarding restrictions on business combination or similar material transaction with affiliated shareholders.

Chemung Financial’s bylaws may be amended by the affirmative vote of at least 80% of the entire board of directors.

Change of Control Regulations.

The Change In Bank Control Act.

The Change in Bank Control Act provides that no person, acting directly or indirectly or through or in concert with one or more other persons, may acquire control of a bank holding company unless the Federal Reserve has been given 60 days prior written notice. For this purpose, the term “control” means the acquisition of the ownership, control or holding of the power to vote 25% or more of any class of a bank holding company’s voting stock, and the term “person” includes an individual, corporation, partnership, and various other entities. In addition, an acquiring person is presumed to acquire control if the person acquires the ownership, control or holding of the power to vote of 10% or

more of any class of the holding company's voting stock if (a) the bank holding company's shares are registered pursuant to Section 12 of the Exchange Act or (b) no other person will own, control or hold the power to vote a greater percentage of that class of voting securities. Accordingly, the prior approval of the Federal Reserve would be required before any person could acquire 10% or more of the common stock of Chemung Financial.

The Bank Holding Company Act.

The Bank Holding Company Act provides that no company may acquire control of a bank directly or indirectly without the prior approval of the Federal Reserve. Any company that acquires control of a bank becomes a "bank holding company" subject to registration, examination and regulation by the Federal Reserve. Pursuant to federal regulations, the term "company" is defined to include banks, corporations, partnerships, associations, and certain trusts and other entities, and "control" of a bank is deemed to exist if a company has voting control, directly or indirectly of at least 25% of any class of a bank's voting stock, and may be found to exist if a company controls in any manner the election of a majority of the directors of the bank or has the power to exercise a controlling influence over the management or policies of the bank. In addition, a bank holding company must obtain Federal Reserve approval prior to acquiring voting control of more than 5% of any class of voting stock of a bank or another bank holding company.

The NYBCL.

As previously mentioned, the NYBCL contains provisions that restrict a corporation's ability to enter into business combinations with a holder of 10% or more of the corporation's outstanding voting stock for a period of five (5) years after the shareholder's acquisition of 20% or more of the corporation's voting stock, subject to certain exceptions as set forth in Section 712 of the NYBCL. See, Comparison of Shareholders' Rights – Anti-Takeover Provisions.

Experts

The consolidated financial statements of Chemung Financial incorporated herein by reference to the Annual Report on Form 10-K for the year ended December 31, 2009 have been so incorporated in reliance upon the report of Crowe Horwath LLP, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

The consolidated financial statements of Fort Orange Financial Corp. and subsidiaries as of December 31, 2009 and 2008, and for each of the two years in the period ended December 31, 2009 included in this joint proxy statement/prospectus have been audited by ParenteBeard LLC, an independent accounting firm, as indicated in their report with respect thereto, and is included herein in reliance upon the authority of said firm as experts in auditing and accounting in giving said report.

Legal Opinions

Hinman, Howard & Kattell, LLP and Hiscock & Barclay, LLP will deliver, at the Effective Time, their opinions to Fort Orange and Chemung Financial, respectively, as to certain matters addressed in the Merger Agreement.

Certain Beneficial Owners of Fort Orange Common Stock

Security Ownership of Certain Beneficial Owners.

To the best knowledge of Fort Orange, there are no beneficial owners of more than 5% of the outstanding shares of Fort Orange common stock as of January 19, 2011 , other than as set forth in the table below, and those shares held by two (2) Fort Orange directors and its Chairman Emeritus, as described in the table below under "Security Ownership by Management."

Security Ownership by Management.

Direct and indirect ownership of common stock by each of the directors, each of the named executive officers and by all directors and executive officers as a group is set forth in the following table as of January 19, 2011 , together with the percentage of total shares outstanding represented by such ownership. For purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 under the Exchange Act, under which, in general, a person is deemed to be the beneficial owner of a security if he or she has or shares the power to vote or to direct the voting of the security or the power to dispose or to direct the disposition of the security, or if he or she has the right to acquire the beneficial ownership of the security within 60 days of January 19, 2011 .

	Amount and Nature of Beneficial Ownership				
Name of Beneficial Owner	Shares Owned Directly and Indirectly (1)	Options Exercisable Within 60 Days (2)	Director Units Earned (3)	Total Beneficial Ownership	Percent of Class (4)
Directors					
Larry H. Becker (5)	167,657	826	864	169,347	4.57 %
Peter D. Cureau	179,994	29,215	—	209,209	5.61 %
Paul G. Kasselman	198,129	826	653	199,608	5.39 %
Raymond J. Kinley, Jr.	40,720	—	701	41,421	1.12 %
Eugene M. Sneeringer, Jr.(6)	149,679	826	1,257	151,762	4.10 %
Edward P. Swyer	180,141	—	663	180,804	4.88 %
Edward J. Trombly (7) (8)	44,934	—	435	45,369	1.23 %
Francis H. Trombly, Jr., Chairman Emeritus (8)	204,803	—	408	205,211	5.54 %
Named Executive Officers					
Steven J. Owens	42,584	26,459	—	69,043	1.85 %
All Directors, including Chairman Emeritus, and Executive Officers as a group (9 persons)	1,208,641	58,152	4,981	1,271,774	33.77 %

(1) Includes shares for which the named person has (i) sole voting and investment power or (ii) shared voting and investment power with a spouse. This information has been provided by the directors and executive officers.

(2) Represents shares of stock that can be acquired upon the exercise of stock options within the 60 day period after January 19, 2011 .

(3) Represents shares of stock that have been earned by the non-executive directors for board service, but have not yet been issued and distributed to the respective directors.

(4) Assumes the exercise of outstanding options issued to each director and executive officer, and the inclusion of any director units earned but not yet distributed.

(5) Includes 139,550 shares beneficially owned by Mr. Becker that are held in the name of two other entities of which Mr. Becker is a 50% owner.

(6) Includes 26,581 shares owned by Mr. Sneeringer's spouse and 3,307 shares owned by Mr. Sneeringer's adult child, as to which Mr. Sneeringer disclaims beneficial ownership.

(7) Includes 31,500 shares held in a personal trust for which Mr. Trombly is the sole trustee.

(8) Francis H. Trombly, Jr. and Edward J. Trombly are brothers. Mr. Francis H. Trombly, Jr., as Chairman Emeritus, attends most board meetings and receives director units as compensation for his attendance, but does not have the ability to vote

Certain Beneficial Owners of
Chemung Financial Common Stock

The following tables set forth, to the best knowledge and belief of Chemung Financial, certain information regarding the beneficial ownership of Chemung Financial common stock as of January 19, 2011 by (i) each person known to Chemung Financial to be the beneficial owner of more than 5% of the outstanding Chemung Financial common stock (other than by its directors and executive officers), (ii) each director and certain named executive officers of Chemung Financial and (iii) all of Chemung Financial's directors and executive officers as a group.

Security Ownership of Certain Beneficial Owners.

Persons and groups who beneficially own in excess of 5% of Chemung Financial common stock are required to file certain reports with Chemung Financial and with the SEC regarding such ownership. The following table summarizes certain information regarding persons whose beneficial ownership is in excess of 5% based on reports filed with the SEC.

Five Percent Shareholders:

	Amount and Nature of Beneficial Ownership					
Name of Beneficial Owner	Shares Owned Directly and Indirectly	Options Exercisable Within 60 Days	Director Units Earned	Total Beneficial Ownership	Percent of Class	
Chemung Canal Trust Company One Chemung Canal Plaza Elmira, NY 14901	409,612	—	—	409,612 [1]	11.50	%
Chemung Canal Trust Company Profit-Sharing, Savings and Investment Plan One Chemung Canal Plaza Elmira, NY 14901	187,328	—	—	187,328 [2]	5.26	%

1 Held by Chemung Canal in various fiduciary capacities, either alone or with others. Includes 25,865 shares held with sole voting and dispositive powers and 383,747 shares held with shared voting power. There are 244,545 shares held with shared dispositive powers. Shares held in a co-fiduciary capacity by Chemung Canal are voted by the co-fiduciary in the same manner as if the co-fiduciary were the sole fiduciary. Shares held by the Chemung Canal as sole trustee will be voted by Chemung Canal only if the trust instrument provides for voting of the shares at the direction of the grantor or a beneficiary and Chemung Canal actually receives voting instructions.

2 The Plan participants instruct Chemung Canal, as trustee, how to vote these shares. If a participant fails to instruct the voting of the shares, Chemung Canal votes these shares in the same proportion as it votes all of the shares for which it receives voting instructions. Plan participants have dispositive power over these shares subject to certain restrictions.

Security Ownership by Management.

Direct and indirect ownership of common stock by each of the directors, each of the named executive officers and by all executive officers as a group is set forth in the following table , as of January 19, 2011 , together with the percentage of total shares outstanding represented by such ownership. For purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 under the Exchange Act, under which, in general, a person is deemed to be the beneficial owner of a security if he or she has or shares the power to vote or to direct the voting of the security or the power to dispose or to direct the disposition of the security, or if he or she has the right to acquire the beneficial ownership of the security within 60 days.

	Shares Owned		Percentage of Class	
Directors:				
Robert E. Agan	33,878		*	
Ronald M. Bentley	11,408		*	
David J. Dalrymple	383,501	3, 5	10.77	%
Robert H. Dalrymple	318,349	4, 5	8.94	%
Clover M. Drinkwater	7,174		*	
William D. Eggers	8,048		*	
Stephen M. Lounsberry, III	25,788	6	*	
Thomas K. Meier	19,321	6	*	
Ralph H. Meyer	21,804	6	*	
John F. Potter	59,920	6, 7	1.68	%
Robert L. Storch	1,048		*	
Charles M. Streeter, Jr.	15,678		*	
Richard W. Swan	84,259	8	2.37	%
Jan P. Updegraff	9,002	9	*	
Named Executive Officers:				
John R. Battersby, Jr.	9,295	10	*	
James E. Corey III	5,214	11	*	
Melinda A. Sartori	4,243	11	*	
Richard G. Carr	4,375	11	*	
Directors and executive officers as a group (26 persons)	1,018,042	12	28.59	%

* Less than 1% based upon 3,560,918 shares outstanding as of January 19, 2011 .

3 Includes 6,915 shares held directly; 9,450 shares held in trust over which Mr. Dalrymple has voting and dispositive powers; 307,720 shares held by the Dalrymple Family Limited Partnership of which David J. Dalrymple and his spouse are general partners; 59,416 shares held by Dalrymple Holding Corporation, of which David J. Dalrymple is an officer, director and principal shareholder. See footnote 5.

4 Includes 241,675 shares held directly; 8,854 shares held in trust over which Mr. Dalrymple has voting and dispositive powers; 59,416 shares held by Dalrymple Holding Corporation of which Robert H. Dalrymple is an officer, director and principal shareholder. Includes 8,704 shares held by Mr. Dalrymple's spouse as to which he disclaims beneficial ownership. (See footnote 5).

5 Excludes 30,230 shares held by Susquehanna Supply Company of which David J. Dalrymple and Robert H. Dalrymple each owns 23.1% of the outstanding common stock. Because of the definition of "beneficial

ownership" under Section 13 of the Exchange Act, David J. Dalrymple and Robert H. Dalrymple are each listed as owners of 59,416 of the same shares of Dalrymple Holding Corporation. Without such multiple counting, the aggregate beneficial ownership of David J. Dalrymple and Robert H. Dalrymple would equal 17.80% of the Company's outstanding shares.

6 Includes shares that Messrs. Lounsberry (11,215), Meier (5,653), Meyer (19,404) and Potter (22,514) have credited to their accounts in memorandum unit form under the Company's Deferred Directors Fee Plan. The deferred fees held in memorandum unit form will be paid solely in shares of the Company's common stock pursuant to the terms of the Plan and the election of the Plan participants. Shares held in memorandum unit form under the Plan have no voting rights.

7 Includes 7,361 shares held by Mr. Potter's spouse, as to which he disclaims beneficial ownership.

8 Includes 11,700 shares owned by Swan & Sons-Morss Co., Inc. of which Mr. Swan is a director, and 33,255 shares held in four trusts over which Mr. Swan has voting and dispositive power. Includes 4,316 shares held in trust for the benefit of Mr. Swan, as income beneficiary, and 4,474 shares held by Mr. Swan's spouse, as to both of which Mr. Swan disclaims beneficial ownership.

9 Includes 2,697 shares owned by Mr. Updegraff's spouse, as to which he disclaims beneficial ownership.

10 Includes 4,399 shares owned by Mr. Battersby's spouse, as to which he disclaims beneficial ownership.

11 Includes all shares of common stock of the Company held for the benefit of each executive officer by the Bank, as trustee of the Bank's Profit Sharing, Savings and Investment Plan. Messrs. Battersby, Carr, Corey, and Mrs. Sartori have an interest in 3,954 , 3,020 , 3,214 and 3,537 shares, respectively.

12 Includes 27,815 shares owned by spouses of certain officers and directors of which such officers and directors disclaim beneficial ownership. Does not include 59,416 shares included under both David J. Dalrymple and Robert H. Dalrymple (See footnote 5).

Other Matters

As of the date of this joint proxy statement/prospectus, neither the Chemung Financial nor the Fort Orange board of directors knows of any matters that will be presented for consideration at their respective special meetings other than as described in this document; however, if any other matter shall properly come before either the Chemung Financial special meeting or the Fort Orange special meeting or any adjournment or postponement thereof and shall be voted upon, the proposed proxies will be deemed to confer authority to the individuals named as authorized therein to vote the shares represented by the proxy as to any matters that fall within the purposes set forth in the notices of special meetings.

Fort Orange Annual Meeting Shareholder Proposals

If the Merger is completed, Fort Orange will cease to exist and there will be no future meetings of shareholders. If the Merger is not completed or if Fort Orange is otherwise required to do so under applicable law, Fort Orange will hold a 2011 annual meeting of shareholders. Any shareholder nominations or proposals for other business intended to be presented at Fort Orange's next annual meeting must be submitted to Fort Orange as set forth below.

Under Fort Orange's bylaws certain procedures are provided that a shareholder must follow to nominate persons for election as directors at an annual meeting of shareholders. These procedures provide that nominations for director nominees must generally be submitted in writing to the Corporate Secretary of Fort Orange at its principal address no later than 60 days prior to the anniversary date of the immediately preceding annual meeting.

Chemung Financial Annual Meeting Shareholder Proposals

Under Chemung Financial’s bylaws, certain procedures are provided that a shareholder must follow to nominate persons for election as directors or to introduce an item of business at an annual meeting of shareholders. These procedures provide that nominations for director nominees and/or an item of business to be introduced at an annual meeting of shareholders must be submitted in writing to Chemung Financial’s Executive Office, One Chemung Canal Plaza, P.O. Box 1522, Elmira, New York 14902, attention: Corporate Secretary, not later than 120 days prior to the anniversary date of the immediately preceding annual meeting. These procedures are not applicable to nominations made pursuant to the SEC’s new proxy access rules, or shareholder proposals made pursuant to Exchange Act Rule 14a-8.

Appraisal Rights

Under Delaware law, shareholders of Fort Orange have the right to dissent from the Merger and to receive, in lieu of the merger consideration described under "Merger Consideration" beginning on page 38 , payment in cash for the fair value of their shares of Fort Orange common stock. Fort Orange shareholders electing to do so must comply with the provisions of Section 262 of the DGCL in order to perfect their rights of appraisal. Fort Orange shareholders who elect to exercise appraisal rights must not vote in favor of the proposal to adopt the Merger Agreement and must comply with the provisions of Section 262 of the DGCL, in order to perfect their rights. Strict compliance with the statutory procedures in Section 262 is required. Failure to follow precisely any of the statutory requirements will result in the loss of appraisal rights. A copy of the applicable Delaware statute is attached as Appendix G to this joint proxy statement/prospectus.

This section is intended as a brief summary of the material provisions of the Delaware statutory procedures that a shareholder must follow in order to seek and perfect appraisal rights. This summary, however, is not a complete statement of all applicable requirements, and it is qualified in its entirety by reference to Section 262 of the DGCL. The following summary does not constitute any legal or other advice, nor does it constitute a recommendation that Fort Orange shareholders exercise their appraisal rights under Section 262.

This section is intended as a brief summary of the material provisions of the Delaware statutory procedures that a shareholder must follow in order to seek and perfect appraisal rights. This summary, however, is not a complete statement of all applicable requirements but contains all material information regarding the exercise of appraisal rights . The following summary does not constitute any legal or other advice, nor does it constitute a recommendation that Fort Orange shareholders exercise their appraisal rights under Section 262.

Section 262 requires that where a merger agreement is to be submitted for adoption at a meeting of shareholders, the shareholders be notified that appraisal rights will be available not less than 20 days before the meeting to vote on the merger. A copy of Section 262 must be included with such notice. This joint proxy statement/prospectus constitutes Fort Orange's notice to its shareholders that appraisal rights are available in connection with the Merger, in compliance with the requirements of Section 262. If you wish to consider exercising your appraisal rights, you should carefully review the text of Section 262 contained in G to this joint proxy statement/prospectus. Failure to comply timely and properly with the requirements of Section 262 will result in the loss of your appraisal rights under the DGCL.

If you , as a record holder of Fort Orange common stock, elect to demand an appraisal of your shares of Fort Orange common stock, you must satisfy the following conditions:

If you elect to demand appraisal of your shares of Fort Orange common stock, you must satisfy each of the following conditions:

You must (i) hold shares of Fort Orange common stock on the date you make a demand for appraisal; (ii) deliver to Fort Orange a written demand for appraisal of your shares of Fort Orange common stock before the vote is taken to approve the proposal to adopt the Merger Agreement, which must reasonably and adequately inform Fort Orange of the identity of the holder of record of Fort Orange common stock who intends to demand appraisal of his, her or its shares of common stock; (iii) not vote or submit a proxy in favor of the proposal to adopt the Merger Agreement; and (iv) continuously hold your shares of Fort Orange common stock through the completion of the Merger. Further, submitting a blank proxy nullifies your right to an appraisal of your shares of Fort Orange common stock. All demands for appraisal should be addressed to Fort Orange Financial Corp., Attention: Corporate Secretary, 1375 Washington Avenue, Albany, New York 12206, and must be delivered before the vote is taken to approve the proposal to adopt the Merger Agreement at the special meeting, and should be executed by, or on behalf of, the record

holder of the shares of common stock.

To be effective, a demand for appraisal by a shareholder of Fort Orange common stock must be made by, or in the name of, the registered shareholder, fully and correctly, as the shareholder's name appears on the shareholder's stock certificate(s) or in the transfer agent's records, in the case of uncertificated shares. The demand cannot be made by the beneficial owner if he or she does not also hold the shares of common stock of record. The beneficial holder must, in such cases, have the registered owner, such as a broker or other nominee, submit the required demand in respect of those shares of common stock. If you hold your shares of Fort Orange common stock through a bank, brokerage firm or other nominee and you wish to exercise appraisal rights, you should consult with your bank, broker or the other nominee to determine the appropriate procedures for the making of a demand for appraisal by the nominee.

If shares of common stock are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of a demand for appraisal should be made in that capacity. If the shares of common stock are owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be executed by or for all joint owners. An authorized agent, including an authorized agent for two or more joint owners, may execute the demand for appraisal for a shareholder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, he or she is acting as agent for the record owner. A record owner, such as a broker, who holds shares of common stock as a nominee for others, may exercise his or her right of appraisal with respect to the shares of common stock held for one or more beneficial owners, while not exercising this right for other beneficial owners. In that case, the written demand should state the number of shares of common stock as to which appraisal is sought. Where no number of shares of common stock is expressly mentioned, the demand will be presumed to cover all shares of common stock held in the name of the record owner.

If you fail to comply with the conditions described above to demand appraisal and the Merger is completed, you will be entitled to receive the merger consideration for your shares of Fort Orange common stock as provided for in the Merger Agreement, but you will have no appraisal rights with respect to your shares of Fort Orange common stock. A holder of shares of Fort Orange common stock wishing to exercise appraisal rights must be the record holder of the shares of common stock on the date the written demand for appraisal is made and must continue to be the record holder of the shares of common stock through the Effective Time, because appraisal rights will be lost if the shares of common stock are transferred prior to the Effective Time. Voting against or failing to vote for the proposal to adopt the Merger Agreement by itself does not constitute a demand for appraisal within the meaning of Section 262. A proxy that is submitted and does not contain voting instructions will, unless revoked, be voted in favor of the proposal to adopt the Merger Agreement, and it will constitute a waiver of the shareholder's right of appraisal and will nullify any previously delivered written demand for appraisal. Therefore, a Fort Orange shareholder who submits a proxy and who wishes to exercise appraisal rights must submit a proxy containing instructions to either vote against the proposal to adopt the Merger Agreement, or elect to abstain from voting on such proposal. The written demand for appraisal must be in addition to and separate from any proxy or vote on the proposal to adopt the Merger Agreement.

Within ten (10) days after the Effective Time, the surviving corporation in the Merger must give written notice that the Merger has become effective to each of Fort Orange shareholders who has properly filed a written demand for appraisal and who did not vote in favor of the proposal to adopt the Merger Agreement. At any time within 60 days after the Effective Time, any shareholder who has not commenced an appraisal proceeding or joined a proceeding as a named party may withdraw the demand and accept the cash and/or stock consideration specified by the Merger Agreement for that shareholder's shares of Fort Orange common stock by delivering to the surviving corporation a written withdrawal of the demand for appraisal. However, any such attempt to withdraw the demand made more than 60 days after the Effective Time will require written approval of the surviving corporation. Unless the demand is properly withdrawn by the shareholder within 60 days after the effective date of the Merger, no appraisal proceeding in the Delaware Court of Chancery will be dismissed as to any shareholder without the approval of the Delaware Court of Chancery, with such approval conditioned upon such terms as the Court deems just. If the surviving corporation does not approve a request to withdraw a demand for appraisal when that approval is required, or if the Delaware Court of Chancery does not approve the dismissal of an appraisal proceeding, the shareholder will be

entitled to receive only the appraised value determined in any such appraisal proceeding, which value could be less than, equal to or more than the consideration offered pursuant to the Merger Agreement.

Within 120 days after the Effective Time, but not thereafter, either the surviving corporation or any shareholder who has complied with the requirements of Section 262 and is entitled to appraisal rights under Section 262 may commence an appraisal proceeding by filing a petition in the Delaware Court of Chancery demanding a determination of the fair value of the shares of common stock held by all shareholders entitled to appraisal. Upon the filing of the petition by a shareholder, service of a copy of such petition shall be made upon the surviving corporation. The surviving corporation has no obligation to file such a petition, and holders should not assume that the surviving corporation will file a petition. Accordingly, the failure of a shareholder to file such a petition within the period specified could nullify the shareholder's previous written demand for appraisal. In addition, within 120 days after the Effective Time, any shareholder who has properly filed a written demand for appraisal and who did not vote in favor of the Merger Agreement, upon written request, will be entitled to receive from the surviving corporation, a statement setting forth the aggregate number of shares of common stock not voted in favor of the Merger Agreement and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. The statement must be mailed within 10 days after such written request has been received by the surviving corporation. A person who is the beneficial owner of shares of Fort Orange common stock held either in a voting trust or by a nominee on behalf of such person may, in such person's own name, file a petition or request from the surviving corporation such statement.

If a petition for appraisal is duly filed by a shareholder and a copy of the petition is delivered to the surviving corporation, then the surviving corporation will be obligated, within 20 days after receiving service of a copy of the petition, to file with the Delaware Register in Chancery a duly verified list containing the names and addresses of all shareholders who have demanded an appraisal of their shares of common stock and with whom agreements as to the value of their shares of common stock have not been reached. After notice to shareholders who have demanded appraisal, if such notice is ordered by the Delaware Court of Chancery, the Delaware Court of Chancery is empowered to conduct a hearing upon the petition and to determine those shareholders who have complied with Section 262 and who have become entitled to the appraisal rights provided by Section 262. The Delaware Court of Chancery may require shareholders who have demanded payment for their shares of common stock to submit their stock certificates to the Register in Chancery for notation of the pendency of the appraisal proceedings; and if any shareholder fails to comply with that direction, the Delaware Court of Chancery may dismiss the proceedings as to that shareholder.

After determination of the shareholders entitled to appraisal of their shares of Fort Orange common stock, the Delaware Court of Chancery will appraise the shares of Fort Orange common stock, determining their fair value as of the Effective Time after taking into account all relevant factors exclusive of any element of value arising from the accomplishment or expectation of the Merger, together with interest, if any, to be paid upon the amount determined to be the fair value. When the value is determined, the Delaware Court of Chancery will direct the payment of such value upon surrender by those shareholders of the certificates representing their shares of Fort Orange common stock. Unless the Delaware Court of Chancery, in its discretion, determines otherwise for good cause shown, interest from the effective date of the Merger through the date of payment of the judgment shall be compounded quarterly and shall accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the Effective Time and the date of payment of the judgment.

You should be aware that an investment banking opinion as to fairness from a financial point of view is not necessarily an opinion as to fair value under Section 262. Although we believe that the per share merger consideration is fair, no representation is made as to the outcome of the appraisal of fair value as determined by the Court and Fort Orange shareholders should recognize that such an appraisal could result in a determination of a value higher or lower than, or the same as, the per share merger consideration. Moreover, we do not anticipate offering more than the per share merger consideration to any Fort Orange shareholder exercising appraisal rights and reserve the right to assert, in any appraisal proceeding, that, for purposes of Section 262, the "fair value" of a share of common stock is less than the per share merger consideration. In determining "fair value", the Delaware Court is required to take into account all relevant factors. In Weinberger v. UOP, Inc., the Delaware Supreme Court discussed the factors that could be considered in determining fair value in an appraisal proceeding, stating that "proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court" should be considered and that "[f]air price obviously requires consideration of all relevant factors involving the value of a company." The Delaware Supreme Court has stated that in making this determination of fair value the court must consider market value, asset value, dividends, earnings prospects, the nature of the enterprise and any other facts which could be ascertained as of the date of the merger which throw any light on future prospects of the merged corporation. Section 262 provides that fair value is to be "exclusive of any element of value arising from the accomplishment or expectation of the merger." In Cede & Co. v. Technicolor, Inc., the Delaware Supreme Court stated that such exclusion is a "narrow exclusion [that] does not encompass known elements of value," but which rather applies only to the speculative elements of value arising from such accomplishment or expectation. In Weinberger, the Delaware Supreme Court construed Section 262 to mean that "elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered."

Costs of the appraisal proceeding (which do not include attorneys' fees or the fees and expenses of experts) may be determined by the Delaware Court of Chancery and imposed upon the surviving corporation and the shareholders participating in the appraisal proceeding by the Delaware Court of Chancery, as it deems equitable in the

circumstances. Upon the application of a shareholder, the Delaware Court of Chancery may order all or a portion of the expenses incurred by any shareholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys' fees and the fees and expenses of experts used in the appraisal proceeding, to be charged pro rata against the value of all shares of common stock entitled to appraisal. Any shareholder who demanded appraisal rights will not, after the Effective Time, be entitled to vote shares of Fort Orange common stock subject to that demand for any purpose or to receive payments of dividends or any other distribution with respect to those shares of Fort Orange common stock, other than with respect to payment as of a record date prior to the Effective Time. However, if no petition for appraisal is filed within 120 days after the Effective Time, or if the shareholder otherwise fails to perfect, successfully withdraws or loses such holder's right to appraisal, then the right of that shareholder to appraisal will cease and that shareholder will be entitled to receive the consideration described in the Merger Agreement (without interest) for his, her or its shares of Fort Orange common stock pursuant to the Merger Agreement.

In view of the complexity of Section 262 of the DGCL, Fort Orange shareholders who may wish to pursue appraisal rights should consult legal counsel and financial advisors.

Incorporation of Certain Documents By Reference

Included with this joint proxy statement/prospectus are copies of the Chemung Financial's Annual Report on Form 10-K for the year ended December 31, 2009 and Quarterly Report on form 10-Q for the quarter ended September 30, 2010.

The SEC allows Chemung Financial to incorporate certain information into this joint proxy statement/prospectus by reference to other information that has been filed with the SEC. Fort Orange does not file periodic reports with the SEC or any reports with any regulatory agency, other than call reports filed with the FDIC. The information incorporated by reference herein is deemed to be part of this joint proxy statement/prospectus, except for any information that is superseded by information in this joint proxy statement/prospectus. The documents that are incorporated by reference contain important information about Chemung Financial and Chemung Canal and you should read this joint proxy statement/prospectus together with any other documents incorporated by reference in this joint proxy statement/prospectus, including the Chemung Financial Annual Report on Form 10-K for the year ended December 31, 2009 and its Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, copies of which are included with this joint proxy statement /prospectus.

This joint proxy statement/prospectus incorporates by reference the following documents that have previously been filed with the SEC by Chemung Financial (File No. 0-13888):

Annual Report on Form 10-K for the year ended December 31, 2009, as filed March 15, 2010;

Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010 (filed May 10, 2010); June 30, 2010 (filed August 9, 2010) and September 30, 2010 (filed November 9, 2010);

Current Reports on Form 8-K filed February 2, 2010, April 29, 2010, May 11, 2010, July 12, 2010 (Form 8-K/A), July 26, 2010, October 20, 2010, October 26, 2010, October 28, 2010, November 23, 2010 and December 27, 2010 (other than the portions of those documents not deemed to be filed); and

Form 14-A Definitive Proxy dated March 30, 2010; and

The description of Chemung Financial common stock set forth in the registration statement on Form 8-A filed pursuant to Section 12 of the Exchange Act, including any amendment or report filed with the SEC for the purpose of updating this description.

In addition, Chemung Financial is incorporating by reference any documents it may file under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, as amended after the date of this joint proxy statement/prospectus and prior to the date of the special meeting of Chemung Financial.

Chemung Financial files annual, quarterly and special reports, proxy statements and other business and financial information with the SEC. You may obtain the information incorporated by reference and any other materials Chemung Financial file with the SEC without charge by following the instructions in the section entitled "Where You Can Find More Information" on page 1 .

Neither Chemung Financial nor Fort Orange has authorized anyone to give any information or make any representation about the Merger or its companies that is different from, or in addition to, that contained in this joint

proxy statement/prospectus or in any of the materials that have been incorporated into this joint proxy statement/prospectus. Therefore, if anyone does give you information of this kind, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this joint proxy statement/prospectus or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this joint proxy statement/prospectus does not extend to you. The information contained in this joint proxy statement/prospectus speaks only as of the date of this document unless the information specifically indicates that another date applies.

Forward-Looking Statements

When we use words or phrases like "will probably result," "we expect," "will continue," "we anticipate," "estimate," "project,' "plan", "should cause," or similar expressions in this report or in any press releases, public announcements, filings with the SEC, or other disclosures, we are making "forward-looking statements" as described in the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, (i) the financial condition, results of operations and business of Chemung Financial and Fort Orange; (ii) statements about the benefits of the Merger, including future financial and operating results, cost savings, enhancements to revenue and accretion to reported earnings that may be realized from the Merger; (iii) statements about our respective plans, objectives, expectations and intentions and other statements that are not historical facts.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

general economic conditions in the areas in which Chemung Financial and Fort Orange operates including volatility and disruption in national and international financial markets;

Chemung Financial's and Fort Orange's businesses may not be combined successfully, or such combination may take longer to accomplish than expected;

delays or difficulties in the integration by Chemung Financial of recently acquired businesses;

the growth opportunities and cost savings from the Merger may not be fully realized or may take longer to realize than expected;

the risk that the Merger Agreement may be terminated in certain circumstances which would require Fort Orange to pay Chemung Financial a termination fee equal to 2.5% of the merger consideration;

operating costs, customer losses and business disruption following the Merger, including adverse effects of relationships with employees, may be greater than expected;

governmental approvals of the Merger may not be obtained, or adverse regulatory conditions may be imposed in connection with governmental approvals of the Merger;

adverse governmental or regulatory policies may be enacted;

the interest rate environment may change, causing margins to compress and adversely affecting net interest income;

the risks associated with continued diversification of assets and adverse changes to credit quality;

competition from other financial services companies in our markets; and

the risk that the continuing economic slowdown could adversely affect credit quality and loan originations.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in Chemung Financial reports filed with the SEC.

All subsequent written and oral forward-looking statements concerning the proposed transaction or other matters attributable to either of us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements above. Neither of Chemung Financial or Fort Orange undertakes any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date of this join proxy statement/ prospectus and both parties specifically disclaims such obligation.

Appendices

Appendix A1

AGREEMENT AND PLAN OF MERGER

DATED AS OF October 14, 2010

BY AND BETWEEN

CHEMUNG FINANCIAL CORPORATION

AND

FORT ORANGE FINANCIAL CORP.

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Agreement and Plan of Merger

This Agreement and Plan of Merger, dated as of the 14th day of October, 2010 ("Agreement"), is entered into by and between Chemung Financial Corporation, a New York business corporation ("CFC") and Fort Orange Financial Corp., a Delaware business corporation ("FOFC").

Recitals

WHEREAS, the boards of directors of CFC and FOFC have determined that this Agreement and the business combination and related transactions contemplated hereby are advisable and in the best interests of their respective companies and shareholders and;

WHEREAS, the boards of directors of CFC and FOFC have approved this Agreement at duly convened meetings; and

WHEREAS, CFC owns all of the issued and outstanding capital stock of Chemung Canal Trust Company ("Chemung Bank"), and FOFC owns all of the issued and outstanding capital stock of Capital Bank & Trust Company ("Capital Bank"), and it is contemplated that, immediately following the Merger, Capital Bank will be merged with and into Chemung Bank with Chemung Bank as the surviving entity (the "Bank Merger"); and

WHEREAS, the parties intend that the Merger as defined herein shall qualify as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986 (the "Code") for federal income tax purposes; and

WHEREAS, as a condition and inducement to CFC's willingness to enter into this Agreement, the directors of FOFC, except for Peter D. Cureau who has entered into the Voting Agreement dated as of the date hereof in the form attached hereto as Exhibit A, have entered into a Voting and Non-Competition Agreement dated as of the date hereof in the form attached hereto as Exhibit B;

NOW THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements contained in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which the parties acknowledge, and intending to be legally bound hereby, the parties agree as follows:

Article I
Definitions

1.1. Definitions.

As used in this Agreement, the following terms have the following meanings. References to Articles and Sections refer to Articles and Sections of this Agreement.

Acquisition Proposal means any proposal or offer with respect to any of the following (other than the transactions contemplated hereunder) involving FOFC: (i) any merger, consolidation, share exchange, business combination or other similar transactions; (ii) any sale, lease, exchange, mortgage, pledge, transfer or other disposition of assets and/or liabilities that constitute a substantial portion of net revenues, net income or assets of FOFC in a single transaction or series of transactions; (iii) any tender offer or exchange offer for 25% or more of the FOFC Common Stock or the filing of a registration statement under the Securities Act in connection therewith; or, (iv) any public announcement by any Person (which shall include any regulatory application or notice, whether in final or draft form) of a proposal, plan or intention to do any of the foregoing or any agreement to engage in any of the foregoing.

Affiliate means the Persons defined as such in Rule 144 promulgated by the SEC under the Securities Act.

Agreement means this Agreement and Plan of Merger.

Articles of Merger means the documents attached as Exhibits C-1 and C-2 to this Agreement.

Bank Merger means the merger of Capital Bank with and into Chemung Bank, with Chemung Bank being the surviving bank.

Bank Plan of Merger means the agreement providing for the Bank Merger, attached as Exhibit D to this Agreement.

Bank Secrecy Act means the Bank Secrecy Act of 1970, as amended.

BHCA means the Bank Holding Company Act of 1956, as amended.

Capital Bank means Capital Bank & Trust Company, a New York chartered commercial bank and a wholly owned subsidiary of FOFC.

CFC means Chemung Financial Corporation, a New York corporation and registered financial holding company.

CFC Common Stock means the common stock of CFC, $.01 par value.

CFC Financials means (i) the audited consolidated financial statements of CFC for the three years ended December 31, 2009, 2008 and 2007; and (ii) the unaudited interim consolidated financial statements of CFC as of each calendar quarter in 2010 through and including September 30, 2010.

CFC Regulatory Reports means the Call Reports filed by Chemung Bank with the FDIC for each calendar quarter, beginning with the quarter ended December 31, 2009 through the Closing Date and the Form FR Y-6 filed by CFC with the FRB for 2009.

Chemung Bank means Chemung Canal Trust Company, a New York chartered commercial bank and a wholly owned Subsidiary of CFC.

Closing means the closing of the Merger, including execution and delivery of all of the documents and instruments required by this Agreement.

Closing Date means the date on which the Merger and the Bank Merger are consummated.

Closing Price means the average of the daily closing price of CFC Common Stock for the ten (10) trading days on which trades of CFC Common Stock occur immediately prior to the Closing Date, as reported on the OTC Bulletin Board.

Code means the Internal Revenue Code of 1986, as amended.

Confidentiality Agreement means the confidentiality agreement between CFC and FOFC dated September 8, 2010 attached as Exhibit E to this Agreement.

CRA means the Community Reinvestment Act of 1977, as amended.

DGCL means the Delaware General Corporation Law, as amended.

Dissenting Shares means any shares of FOFC Common Stock that are issued and outstanding immediately prior to the Effective Time and that are held by a FOFC shareholder who has not voted in favor of the Merger or consented

thereto in writing and who properly shall have demanded payment of the fair value of such shares in accordance with the DGCL.

DOJ means the United States Department of Justice.

Effective Time means the date and time to be specified in the Articles of Merger, to be filed with the New York Secretary of State and the Delaware Secretary of State, which date shall be the Closing Date, or such later date and time as shall be specified as the Effective Time pursuant to the mutual agreement of CFC and FOFC and in accordance with the NYBCL.

ERISA means the Employee Retirement Income Security Act of 1974, as amended.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Exchange Agent means American Stock Transfer & Trust Company, the firm designated to effect the share exchanges provided for in this Agreement.

Exchange Ratio means 0.3571, subject to adjustment:

(a) pursuant to Section 2.5

(b) as follows: if the Closing Price is greater than $25.20, the Exchange Ratio shall be computed based upon a per share price for FOFC Common Stock of $9.00. For example, if the Closing Price is $27.50, the Exchange Ratio would be 0.3273.

FDIC means the Federal Deposit Insurance Corporation.

FinCen means the Financial Crimes Enforcement Network of the United States Department of the Treasury.

FOFC means Fort Orange Financial Corp., a Delaware business corporation and registered bank holding company.

FOFC Delinquent Loans means: (i) all loans with principal and/or interest that are 45-89 days past due; (ii) all loans with principal and/or interest that are at least 90 days past due and still accruing; (iii) all loans that are non-accruing; (iv) restructured and impaired loans; (v) OREO; and (vi) net charge-offs from the date of this Agreement through the last business day of the month prior to the Closing.

FOFC Financials means: (i) the audited consolidated financial statements of FOFC for the three years ended December 31, 2009, 2008 and 2007; and (ii) the unaudited interim consolidated financial statements of FOFC as of each calendar quarter in 2010 through and including September 30, 2010.

FOFC Stock Plans means the Capital Bank & Trust Company Stock Unit Plan for Non-Employee Directors, as amended, the Capital Bank & Trust Company 1996 Stock Option Plan for Non-Employee Directors, the Capital Bank & Trust Company 1996 Stock Option Plan for Key Employees, the Capital Bank & Trust Company 1997 Stock Option Plan, and the Fort Orange Financial Corp. 2007 Stock-Based Incentive Plan.

FOFC Regulatory Reports means the Call Reports filed by Capital Bank with the FDIC for each calendar quarter, beginning with the quarter ended December 31, 2009 through the Closing Date and the Form FR Y-6 filed by FOFC with the FRB for 2009.

FRB means the Board of Governors of the Federal Reserve System.

GAAP means generally accepted accounting principles as in effect in the United States at the relevant date and which are applied on a consistent basis.

GLBA means the Gramm-Leach-Bliley Act, as amended.

Governmental Entity means any federal or state court, administrative agency or commission or other governmental authority or instrumentality.

Hazardous Materials means any hazardous waste, petroleum product, polychlorinated biphenyl, chemical, pollutant, contaminant, pesticide, radioactive substance, or other toxic material, or other material or substance regulated under any applicable Law.

Index means the average of the per share common stock prices of the common stock of the publicly traded banks headquartered in New York and Pennsylvania with total assets between $500 million and $4 billion listed on Exhibit F attached hereto.

Intellectual Property means all patents, copyrights, trade secrets, trade names, servicemarks, trademarks, domain names, software, or internet websites used in a party’s business.

IRS means the Internal Revenue Service.

Joint Proxy Statement-Prospectus means the proxy statement/prospectus included in the Registration Statement on Form S-4 filed with the SEC and distributed to shareholders of CFC and FOFC in connection with the meetings of the shareholders of each of CFC and FOFC to approve the Merger.

Knowledge means a party’s actual knowledge after reasonable inquiry, unless a different meaning, including, but not limited to, constructive knowledge, is expressed.

Law means any statute, law, ordinance, rule, regulation, order, permit, judgment, injunction, decree, case law and other rules of law enacted, promulgated or issued by any Governmental Entity.

Lien means any charge, mortgage, pledge, security interest, claim, lien or encumbrance.

Material Adverse Effect means with respect to CFC or FOFC, any effect that is material and adverse to its assets, financial condition or results of operations on a consolidated basis, provided, however, that Material Adverse Effect shall not be deemed to include: (i) any change in the value of the respective investment and loan portfolios of CFC or FOFC resulting from a change in interest rates generally; (ii) any change occurring after the date hereof in any federal or state law, rule or regulation or in GAAP, which change affects depository institutions generally; (iii) actions or omissions of a party taken with the prior informed written consent of the other party in contemplation of the transactions contemplated hereby; (iv) any change in general economic conditions affecting banks or their holding companies; (v) changes resulting from expenses incurred in connection with this Agreement; (vi) any decline in the aggregate deposits level of Capital Bank or Chemung Bank; and (vii) any information that is set forth on a disclosure schedule attached hereto.

Merger means the merger of FOFC with and into CFC with CFC as the surviving entity as provided in this Agreement.

Merger Consideration means the shares of CFC Common Stock issuable and the cash payable in connection with the Merger, as specified in Section 2.4 of this Agreement.

NYBCL means the New York Business Corporation Law, as amended.

NYSBD means the New York State Banking Department.

OFAC means the Office of Foreign Assets Control of the United States Department of the Treasury.

OREO means Other Real Estate Owned, reflected as such on an institution’s books.

OTC Bulletin Board means the electronic quotation system in the United States that displays real-time quotes, last-sale prices, and volume information for over-the-counter equity securities that are not listed on the NASDAQ stock exchange or a national securities exchange.

Patriot Act means the USA Patriot Act, as amended.

PBGC means the Pension Benefit Guaranty Corporation.

Person means an individual, corporation, partnership, bank, limited liability company, trust, association, unincorporated organization, other entity or group (as defined in Section 13(d)(3) of the Exchange Act).

Registration Statement means a registration statement to be filed with the SEC on Form S-4 with respect to the issuance of CFC Common Stock in the Merger.

Regulatory Authority means any banking agency or department of any federal or state government, including, without limitation, the FRB, the FDIC and the NYSBD.

SEC means the United States Securities and Exchange Commission.

Securities Act means the Securities Act of 1933, as amended.

Subsidiary means with respect to any party, any Person which is consolidated with such party for financial reporting purposes.

Superior Competing Proposal means any unsolicited bona fide written proposal made by any Person to acquire, directly or indirectly, including pursuant to a tender offer, exchange offer, merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction, for consideration consisting of cash and/or securities, more than 50% of the combined voting power of the shares of FOFC Common Stock then outstanding or all or substantially all of the assets of FOFC and otherwise: (i) on terms which the FOFC board of directors determines in good faith, after consultation with its financial advisor, to be more favorable from a financial point of view to FOFC’s shareholders than the transaction contemplated by this Agreement; and (ii) that constitutes a transaction that, in the FOFC board of directors’ good faith judgment, is reasonably likely to be consummated on the terms set forth, taking into account all legal, financial, regulatory and other aspects of such proposal.

Surviving Corporation means CFC, as the surviving corporation in the Merger.

Tax(es) means any federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premises, windfall profits, environmental (including taxes under Section 59A of the Code), customs duties, franchise, profits, withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alterations or add-on minimum, estimated or other tax of any kind whatsoever, including any interest, penalty or additions thereto, whether disputed or not and including any obligations to indemnify or otherwise assume or succeed to the tax liability of any other Person.

Voting Agreement means the agreement attached as Exhibit A to this Agreement.

Voting and Non-Competition Agreement means the agreement attached as Exhibit B to this Agreement.

Article II
The Merger

2.1. The Merger.

Upon the terms and subject to the conditions set forth in this Agreement, FOFC will merge with and into CFC (the “Merger”) at the Effective Time. At the Effective Time, the separate corporate existence of FOFC shall cease. CFC shall be the Surviving Corporation in the Merger and shall continue to be governed by the NYBCL and its name and

separate corporate existence, with all of its rights, privileges, immunities, powers and franchises, shall continue unaffected by the Merger.

2.2. Effective Time.

CFC shall file the Articles of Merger in the form attached to this Agreement as Exhibit C-1, with the New York Secretary of State pursuant to the NYBCL and FOFC shall file the Articles of Merger in the form attached to this Agreement as Exhibit C-2, with the Delaware Secretary of State pursuant to the DGCL. The Merger shall become effective upon such filing or at such later date or time as the parties may agree and specify in the Articles of Merger. The date and time the Merger becomes effective shall be the "Effective Time".

2.3. Effects of the Merger.

The Merger will have the effects set forth in the NYBCL and the DGCL. Without limiting the generality of the foregoing, and subject thereto, from and after the Effective Time, CFC shall possess all of the assets, properties, rights, privileges, powers and franchises of FOFC and be subject to all of the debts, liabilities and obligations of FOFC.

2.4. Merger Consideration.

Subject to the provisions of this Agreement, at the Effective Time, automatically by virtue of the Merger and without any action on the part of any Person, each share of FOFC Common Stock issued and outstanding immediately prior to the Effective Time shall be converted at the election of the holder thereof, in accordance with the election and allocation procedures set forth in this Section 2.4, into either: (i) shares of CFC Common Stock based upon the Exchange Ratio; (ii) cash, at the rate of $7.50 for each share of FOFC Common Stock; or (iii) a combination of such shares of CFC Common Stock and cash (the shares of CFC Common Stock issuable and the cash payable in connection with the Merger sometimes being referred to as the “Merger Consideration”).

(a) FOFC’s shareholders shall have the following choices in connection with the exchange of their FOFC Common Stock pursuant to the Merger:

(i) At the option of each holder of FOFC Common Stock, all of such holder’s FOFC Common Stock shall be converted into the right to receive the number of shares of CFC Common Stock that is equal to the number of shares of FOFC Common Stock held by such holder times the Exchange Ratio (the “All Stock Election”), provided that:

(A) Fractional shares will not be issued and cash, payable by check, will be paid in lieu thereof; and

(B) After giving effect to Section 2.4(a)(i),(ii) and (iii), in no event shall, in the aggregate, more than seventy five percent (75%) of FOFC Common Stock issued and outstanding immediately prior to the Effective Time be converted into and become shares of CFC Common Stock; or

(ii) At the option of each holder of FOFC Common Stock, all of such holder’s FOFC Common Stock shall be converted into the right to receive cash, payable by check, in an amount equal to the number of shares of FOFC Common Stock held by such holder times $7.50 (the “All Cash Election”), provided that:

(A) After giving effect to Section 2.4(a)(i),(ii) and (iii), in no event shall, in the aggregate, more than twenty five percent (25%) of FOFC Common Stock issued and outstanding immediately prior to the Effective Time be either Dissenting Shares or be converted into and become cash; or

(iii) At the option of each holder of FOFC Common Stock, seventy five percent (75%) of such holder’s aggregate number of shares of FOFC Common Stock (the “Stock Portion”) shall be converted into the right to receive such number of shares of CFC Common Stock equal to the number of shares of FOFC Common Stock in the Stock Portion times the Exchange Ratio, and twenty five percent (25%) of such holder’s aggregate number of shares of FOFC Common Stock (the “Cash Portion”) shall be converted into the right to receive cash, payable by check, in an amount equal to the number of shares of FOFC Common Stock in the Cash Portion times $7.50 (the “Mixed Election”), provided that:

(A) Fractional shares will not be issued and cash, payable by check, will be paid in lieu thereof as provided in Section 2.4; and

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(B) After giving effect to Section 2.4(a)(i),(ii) and (iii), in no event shall, in the aggregate, more than seventy five percent (75%) of FOFC Common Stock issued and outstanding immediately prior to the Effective Time be converted into and become shares of CFC Common Stock;

(C) After giving effect to Section 2.4(a)(i),(ii) and (iii), in no event shall, in the aggregate, more than twenty five percent (25%) of FOFC Common Stock issued and outstanding immediately prior to the Effective Time be either Dissenting Shares or be converted into and become cash; or

(b) If no election is validly made by a holder by the Election Deadline pursuant to Section 2.4(c), all of such holder's shares of FOFC Common Stock shall be converted into the right to receive CFC Common Stock as set forth in Section 2.4(a)(i), cash as set forth in Section 2.4(a)(ii), or any combination of CFC Common Stock and cash as determined by CFC; provided, however, that no fractional shares shall be issued and cash will be paid in lieu thereof as provided in Section 2.4(h). Such shares of FOFC Common Stock shall be allocated by CFC on a pro rata basis among non-electing holders based upon the number of shares of FOFC Common Stock for which an election has not been received by the Election Deadline in order to achieve the overall ratio of seventy five percent (75%) of FOFC Common Stock to be converted into CFC Common Stock and twenty five percent (25%) of FOFC Common Stock to be converted into cash after taking into account Dissenting Shares. Notice of such allocation shall be provided promptly to each holder whose shares of FOFC Common Stock are allocated pursuant to this Section 2.4(b).

(c) An election form and other appropriate transmittal materials in such form as the parties shall mutually agree (the "Election Form") shall be mailed to shareholders of FOFC prior to the Election Period. The "Election Period" shall be the period of time to which the parties shall agree, within which FOFC shareholders may validly elect the form of Merger Consideration set forth in Section 2.4(a) (the "Election") that they will receive, occurring between: (i) the date of the mailing of the Joint Proxy Statement-Prospectus for the special meeting of shareholders of FOFC at which this Agreement and the Merger is presented for approval; and (ii) the Closing Date. The "Election Deadline" shall be the time, specified by CFC after consultation with FOFC, at close of business local time on the last day of the Election Period. An Election shall be considered to have been validly made by a holder of FOFC Common Stock only if: (i) the Exchange Agent shall have received an Election Form properly completed and executed by such holder, accompanied by a certificate or certificates representing the shares of FOFC Common Stock as to which such Election is being made, duly endorsed in blank or otherwise in form acceptable for transfer on the books of FOFC, or containing an appropriate guaranty of delivery in the form customarily used in transactions of this nature from a member of a national securities exchange or a member of the Financial Industry Regulatory Authority or a commercial bank or trust company in the United States; and (ii) such Election Form and such certificate(s) or such guaranty of delivery shall have been received by the Exchange Agent prior to the Election Deadline.

(d) Any holder of FOFC Common Stock may at any time prior to the Election Deadline revoke an election and either: (i) submit a new Election Form in accordance with the procedures in Section 2.4(c); or (ii) withdraw the certificate(s) for FOFC Common Stock deposited therewith by providing written notice that is received by the Exchange Agent by 5:00 p.m., local time for the Exchange Agent, on the business day prior to the Election Deadline. In the event of the termination of this Agreement, the Exchange Agent shall return any certificates deposited by the holder of FOFC Common Stock to such holder at the address and to the Person set forth in the Election Form.

(e) If more than twenty five percent (25%) of the total number of shares of FOFC Common Stock issued and outstanding constitute Dissenting Shares or, at the Election Deadline, have been deposited for exchange with cash pursuant to the All Cash Election or the Mixed Election and not withdrawn pursuant to Section 2.4(d), CFC will cause to be eliminated by the Exchange Agent, from the shares deposited pursuant to the All Cash Election, subject to the limitations described in Section 2.4(e)(iv), a sufficient number of such shares so that the total number of shares remaining on deposit for exchange into cash pursuant to the All Cash Election and the Mixed Election, when added to the number of Dissenting Shares, does not exceed twenty five percent (25%) of the shares of FOFC Common Stock issued and outstanding on the Election Deadline. The holders of FOFC Common Stock who have made the Mixed Election shall not be required to have more than seventy five percent (75%) of their shares of FOFC Common Stock converted into CFC Common Stock. After giving effect to Section 2.4(b), such elimination will be effected as follows:

(i) Subject to the limitations described in Section 2.4(e)(iv), CFC will eliminate or cause to be eliminated from the shares deposited pursuant to the All Cash Election, and will add or cause to be added to the shares deposited for CFC Common Stock pursuant to the All Stock Election, on a pro rata basis in relation to the total number of shares deposited pursuant to the All Cash Election minus the number of shares so deposited by the holders described in Section 2.4(e)(iv), such number of whole shares of FOFC Common Stock on deposit for cash pursuant to the All Cash Election as may be necessary so that the total number of shares remaining on deposit for cash pursuant to All Cash Election or the Mixed Election, when added to the number of Dissenting Shares, is equal, as nearly as practicable, to twenty five percent (25%) of the shares of FOFC Common Stock issued and outstanding immediately prior to the Effective Time;

(ii) All shares of FOFC Common Stock that are eliminated pursuant to Section 2.4(e)(iv) from the shares deposited for cash pursuant to All Cash Election shall be converted into CFC Common Stock as provided by Section 2.4(a)(i);

(iii) Notice of such allocation shall be provided promptly to each holder whose shares of FOFC Common Stock are eliminated from the shares on deposit for exchange with cash pursuant to Section 2.4(e)(i); and

(iv) Notwithstanding the foregoing, the holders of one hundred (100) or fewer shares of FOFC Common Stock of record on the date of this Agreement who have elected the All Cash Election shall not be required to have any of their shares of FOFC Common Stock converted into CFC Common Stock.

(f) If fewer than twenty five percent (25%) of the total number of shares of FOFC Common Stock issued and outstanding have, at the Election Deadline, been deposited for cash pursuant to the All Cash Election or the Mixed Election and not withdrawn pursuant to Section 2.4(d), CFC will promptly add, or cause to be added by the Exchange Agent, to such deposited shares, a sufficient number of shares of FOFC Common Stock deposited for shares of CFC Common Stock pursuant to the All Stock Election so that the total number of shares of FOFC Common Stock on deposit for cash pursuant to the All Cash Election or the Mixed Election immediately prior to the Effective Time, when added to the number of Dissenting Shares, is not less than twenty five percent (25%) of the shares of FOFC Common Stock issued and outstanding immediately prior to the Effective Time. The holders of FOFC Common Stock who have elected to have their shares converted pursuant to the Mixed Election shall not be required to have more than twenty five percent (25%) of their shares of FOFC Common Stock converted into cash. After giving effect to Section 2.4(b), such addition will be effected as follows:

(i) CFC will cause to be added to the shares deposited for cash pursuant to the All Cash Election or the Mixed Election, and will eliminate or cause to be eliminated from the shares deposited for CFC Common Stock pursuant to the All Stock Election, on a pro rata basis in relation to the total number of shares of FOFC Common Stock deposited for shares of CFC Common Stock pursuant to the All Stock Election, such number of whole shares of FOFC Common Stock not then on deposit for cash as may be necessary so that the number of shares remaining on deposit for

exchange with cash, when added to the number of Dissenting Shares, is equal, as nearly as practicable, to twenty five percent (25%) of the shares of FOFC Common Stock issued and outstanding immediately prior to the Effective Time;

(ii) All shares of FOFC Common Stock that are added pursuant to Section 2.4(f)(i) to the shares deposited for cash shall be converted into cash as provided by Section 2.4(a)(ii); and

(iii) Notice of such allocation shall be provided promptly to each holder whose shares of FOFC Common Stock are added to the shares on deposit for cash pursuant to Section 2.4(f).

(g) If, subsequent to the date of this Agreement but prior to the Effective Time, the outstanding shares of CFC Common Stock or FOFC Common Stock shall be increased, decreased, changed into or exchanged for a different number of shares, in each case by reason of any stock split, recapitalization, or other similar change, the Exchange Ratio shall be adjusted proportionately.

(h) No certificates or scrip representing less than one share of CFC Common Stock shall be issued upon the surrender for exchange of a certificate or certificates which immediately prior to the Effective Time represented outstanding shares of FOFC Common Stock. In lieu of any such fractional share, each holder of such shares who would otherwise have been entitled to a fraction of a share of CFC Common Stock, upon surrender of certificates representing shares of FOFC Common Stock for exchange, shall be paid upon such surrender cash (without interest) in an amount equal to such fraction multiplied by the Closing Price.

2.5. Adjustment to Merger Consideration.

The Merger Consideration shall be subject to adjustment as provided in this Section 2.5. As determined on the Closing Date, if the FOFC Delinquent Loans at the end of the month immediately preceding the Closing are: (i) less than $6.5 million, the Exchange Ratio shall be 0.3571 and the cash component of the Merger Consideration shall be $7.50; (ii) $6.5 million or greater, but less than $8.5 million, the Exchange Ratio shall be 0.3524 and the cash component of the Merger Consideration shall be $7.40; (iii) $8.5 million or greater, but less than $10.5 million, the Exchange Ratio shall be 0.3476 and the cash component of the Merger Consideration shall be $7.30; or (iv) $10.5 million or greater, CFC may at its election (A) terminate this Agreement pursuant to Section 6.1(h); or (B) proceed with the transaction in which event the Exchange Ratio shall be 0.3429 and the cash component of the Merger Consideration shall be $7.20.

2.6. Exchange Procedures.

(a) As soon as practicable after the Effective Time, CFC shall reserve for issuance and cause to be deposited with American Stock Transfer & Trust Company (the “Exchange Agent”), for exchange in accordance with this Article II, certificates representing the aggregate number of shares of CFC Common Stock and cash, by wire transfer of immediately available funds, into which the outstanding shares of FOFC Common Stock shall be converted pursuant to Section 2.4. As soon as practicable after the Effective Time, CFC shall cause the Exchange Agent to mail to all holders of record of FOFC Common Stock, excluding any holders of Dissenting Shares, letters of transmittal specifying the procedures for delivery of such holders’ certificates formerly representing FOFC Common Stock to the Exchange Agent in exchange for new certificates of CFC Common Stock and cash in lieu of fractional shares issuable pursuant to this Article II. A letter of transmittal will be deemed properly completed only if accompanied by certificates representing all shares of FOFC Common Stock to be converted thereby.

(b) As soon as practicable, after surrender to the Exchange Agent of the certificates of FOFC Common Stock in accordance with the instructions of the letter of transmittal, the Exchange Agent shall distribute to the former holders of shares of FOFC Common Stock a certificate representing the number of shares of CFC Common Stock, and a check for cash payable in the Merger (including cash in lieu of fractional shares, if any), that such holder is entitled to receive pursuant to this Agreement. In no event shall the holder of any such surrendered certificates be entitled to receive interest on any stock or cash to be received in the Merger. If any certificate surrendered for exchange is to be issued in a name other than that in which the surrendered certificate is issued, the certificate so surrendered shall be properly endorsed and otherwise in proper form for transfer and the Person requesting such exchange shall affix any required stock transfer tax stamps to the certificate or provide funds for their purchase or establish to the satisfaction of the Exchange Agent that such taxes are not payable.

(c) At and after the Effective Time, each certificate of FOFC Common Stock (except as set forth in Section 2.10 with respect to Dissenting Shares) shall represent only the right to receive the Merger Consideration. No dividends or

other distributions declared after the Effective Time with respect to CFC Common Stock shall be paid to the holder of any unsurrendered certificate formerly representing shares of FOFC Common Stock until such holder shall surrender such certificate in accordance with this Section. After the surrender of a certificate in accordance with this Section 2.5, the record holder thereof shall be entitled to receive any such dividends or other distributions, without any interest thereon, which theretofore have become payable with respect to shares of CFC Common Stock.

(d) At the Effective Time, the stock transfer books of FOFC shall be closed and no transfer of FOFC Common Stock shall thereafter be made or recognized. If, after the Effective Time, certificates representing such shares are presented for transfer, they shall be cancelled and exchanged for the Merger Consideration as provided in this Section 2.6. CFC and the Exchange Agent shall be entitled to rely upon FOFC's stock transfer books to establish the identity of those Persons entitled to receive the Merger Consideration, which books shall be conclusive with respect thereto. In the event of a dispute with respect to ownership of stock represented by any certificate for shares of FOFC Common Stock, CFC and the Exchange Agent shall be entitled to deposit any Merger Consideration represented thereby in escrow with an independent third party and thereafter be relieved with respect to any claims thereto.

(e) In the event any certificate shall have been lost, stolen, destroyed or mutilated, upon the making of an affidavit of that fact by the Person claiming such certificate to be lost, stolen, destroyed or mutilated and, if required by CFC, the making of an indemnity agreement in a form reasonably requested by CFC and/or the posting by such Person of a bond in such amount as CFC may reasonably direct as indemnity against any claim that may be made against it with respect to such certificate, the Exchange Agent will issue in exchange for such lost, stolen, destroyed or mutilated certificate the Merger Consideration deliverable in respect thereof pursuant to this Agreement.

(f) Neither CFC nor FOFC shall be liable to any holder of shares of FOFC Common Stock for any Merger Consideration delivered to a public official pursuant to any applicable abandoned property, escheat or similar law. After the first anniversary of the Effective Time, CFC shall be entitled to instruct the Exchange Agent to release to CFC all of the shares of CFC Common Stock and cash then remaining undistributed to former shareholders of FOFC. Thereafter and until such time as any remaining undistributed shares of CFC Common Stock and cash are delivered to a public official pursuant to any applicable property, escheat or similar law, CFC shall deliver certificates representing an appropriate number of shares of CFC Common Stock and/or a check for cash in lieu of fractional shares, if any, to such former shareholders of FOFC who present either to the Exchange Agent or CFC: (i) certificates representing FOFC Common Stock; (ii) the accompanying letter of transmittal; and (iii) other related documents.

2.7. Effect of the Merger on Shares of CFC Common Stock and FOFC Common Stock.

At the Effective Time, each share of CFC Common Stock issued and outstanding immediately prior to the Effective Time shall remain an issued and outstanding share of common stock of the Surviving Corporation and shall not be affected by the Merger. Each share of FOFC Common Stock held in treasury by FOFC or owned by any Subsidiary of FOFC, CFC or any Subsidiary of CFC (in each case other than in a fiduciary capacity) immediately prior to the Effective Time shall be cancelled without any exchange or conversion thereof and no payment or distribution shall be made with respect thereto.

2.8. Directors of Surviving Corporation After Effective Time; Advisory Board.

(a) Subject to Section I, immediately after the Effective Time, until their respective successors are duly elected or appointed and qualified, the directors of the Surviving Corporation shall consist of the directors of CFC serving immediately prior to the Effective Time, plus two directors of FOFC or Capital Bank serving immediately prior to the Effective Time, as selected solely in the discretion of CFC. The Bank Plan of Merger also shall provide for the selection of such directors to serve as directors of Chemung Bank.

(b) Promptly following the Effective Time, CFC shall cause to be formed a Capital District Advisory Board (the "Advisory Board") and invite each member of FOFC's and Capital Bank's respective board of directors who was formerly serving as a non-employee director immediately prior to the Effective Time of the Merger (other than Peter D. Cureau and members who are elected to CFC's and Chemung Bank's board of directors pursuant to Section 2.8(a)) to serve on the Advisory Board. The Advisory Board shall be comprised of such FOFC directors who accept the invitation to serve thereon. The purpose and function of the Advisory Board will be to advise Chemung Bank on

deposit, lending and financial services activities in FOFC's former market area and to insure a smooth transition of business relationships in connection with the Merger and the continued development of business relationships throughout such market area. Each member of the Advisory Board shall be paid for each meeting he or she actually attends, in consideration for his or her services on the Advisory Board. The term of the Advisory Board shall be for a three (3) year period following the Effective Time.

2.9. Certificate of Incorporation and ByLaws.

The certificate of incorporation and the bylaws of CFC, as in effect immediately prior to the Effective Time, shall be the certificate of incorporation and bylaws of the Surviving Corporation until thereafter amended in accordance with applicable Law.

2.10. Treatment of Stock Options and Restricted Stock.

(a) Each option to purchase shares of FOFC Common Stock issued by FOFC and outstanding at the Effective Time pursuant to the FOFC Stock Plans (each, a “FOFC Option”), whether or not such FOFC Option is exercisable at the Effective Time, shall cease to be outstanding and shall be converted into the right to receive in cash, an aggregate amount equal to the product of: (i) the number of shares of FOFC Common Stock subject to unexercised FOFC Options (both vested and unvested); and (ii) the difference, if any, between (x) the sum of: (1) 75% of the product of the Exchange Ratio and the Closing Price, and (2) 25% of $7.50, and (y) the applicable exercise price per share under the FOFC Options.

(b) Each outstanding restricted stock award which is unvested immediately prior to the Effective Time, shall vest and be free of any restrictions as of the Effective Time in accordance with the terms of the applicable FOFC Stock Plans and be exchanged for Merger Consideration as provided in Section 2.4.

2.11. Dissenters’ Rights.

Notwithstanding any other provision of this Agreement to the contrary, shares of FOFC Common Stock that are outstanding immediately prior to the Effective Time and which are held by shareholders who shall have not voted in favor of the Merger or consented thereto in writing and who properly shall have demanded payment of the fair value for such shares in accordance with the DGCL (collectively, the “Dissenters’ Shares”) shall not be converted into or represent the right to receive the Merger Consideration. Such shareholders instead shall be entitled to receive payment of the fair value of such shares held by them in accordance with the provisions of the DGCL, except that all Dissenters’ Shares held by shareholders who shall have failed to perfect or who effectively shall have withdrawn or otherwise lost their rights as dissenting shareholders under the DGCL shall thereupon be deemed to have been converted into and to have become exchangeable, as of the Effective Time, for the right to receive, without any interest thereon, the Merger Consideration upon surrender in the manner provided in Section 2.5 of the certificate(s) that, immediately prior to the Effective Time, evidenced such shares. FOFC shall give CFC: (i) prompt notice of any written demands for payment of the fair value of any shares of FOFC Common Stock, attempted withdrawals of such demands and any other instruments served pursuant to the DGCL and received by FOFC relating to shareholders’ dissenters’ rights; and (ii) the opportunity to participate in all negotiations and proceedings with respect to demands under the DGCL consistent with the obligations of FOFC thereunder. FOFC shall not, except with the prior written consent of CFC: (i) make any payment with respect to such demand; (ii) offer to settle or settle any demand for payment of fair value; or (iii) waive any failure to timely deliver a written demand for payment of fair value or timely take any other action to perfect payment of fair value rights in accordance with the DGCL.

2.12. Bank Merger.

Concurrently with or as soon as practicable after the execution and delivery of this Agreement, Capital Bank and Chemung Bank shall enter into the Plan of Bank Merger, pursuant to which Capital Bank will merge with and into Chemung Bank in the Bank Merger. The parties intend that the Bank Merger will become effective simultaneously with or immediately following the Effective Time.

2.13. Alternative Structure.

Notwithstanding any provision of this Agreement to the contrary, CFC may, subject to the filing of all necessary applications and the receipt of all required regulatory approvals, modify the structure of the transactions contemplated hereby, and the parties shall enter into such alternative transactions, so long as: (i) there are no adverse federal or state income tax consequences to any of the shareholders, directors or officers of FOFC as a result of such modification; (ii) the Merger Consideration is not thereby changed or reduced in amount because of such modification; (iii) such modification will not be likely to materially delay or jeopardize receipt of any required regulatory approvals; (iv) it does not result in any representation or warranty of any party set forth in this Agreement becoming incorrect in any material respect; and (v) it does not diminish the benefits of any officer, director or employee of FOFC pursuant to this Agreement.

2.14. Absence of Control.

Subject to any specific provisions of this Agreement, it is the intent of the parties hereto that CFC by reason of this Agreement shall not be deemed (until consummation of the transactions contemplated hereby) to control, directly or indirectly, FOFC or to exercise, directly or indirectly, a controlling influence over the management or policies of FOFC.

Article III
Representations and Warranties of FOFC

FOFC hereby makes the following representations and warranties to CFC, each of which is being relied upon by CFC as a material inducement to enter into and perform this Agreement. All of the disclosure schedules of FOFC referenced below and thereby required of FOFC pursuant to this Agreement, which disclosure schedules shall be cross-referenced to the specific sections and subsections of this Agreement and delivered herewith, are referred to herein as the "FOFC Disclosure Schedule."

3.1. Capitalization.

(a) The authorized capital stock of FOFC consists of 10,000,000 shares of FOFC Common Stock, par value $.10 per share, of which, as of the date hereof, 3,742,303 shares are issued 3, 702, 312 are outstanding and 39,991 shares are held in treasury and 1,000,000 shares of preferred stock, par value $.10 per share, none of which are issued or outstanding. As of the date hereof, except for FOFC Common Stock to be issued pursuant to FOFC Stock Plans, no shares of FOFC Common Stock or preferred stock are reserved for issuance. All outstanding shares of FOFC Common Stock have been duly authorized and validly issued and are fully paid and non-assessable, with no personal liability attaching to the ownership thereof. None of the shares of FOFC Common Stock has been issued in violation of the preemptive rights of any Person.

(b) Section 3.1 of the FOFC Disclosure Schedule sets forth a complete and accurate list of all outstanding options for and rights to receive FOFC Common Stock, including the names of the holders thereof, and to the extent applicable, dates of grant, exercise prices, dates of vesting, dates of termination, shares subject to each option and right and whether stock appreciation, limited or other similar rights were granted in connection therewith. Except as set forth therein, there are no authorized, issued or outstanding options or other rights with respect to the FOFC Common Stock or preferred stock.

3.2. Corporate Organization.

(a) FOFC is a duly organized corporation, validly existing and in good standing under the Laws of Delaware, with full corporate power and authority to carry on its business as now conducted and is duly licensed or qualified to do business in the states of the United States and foreign jurisdictions where its ownership or leasing of property or the conduct of its business requires such qualification, except where the failure to be so licensed or qualified would not have a Material Adverse Effect on FOFC. FOFC is registered as a bank holding company under the BHCA. The certificate of incorporation and by-laws of FOFC, copies of which are attached as Section 3.2(a) of the FOFC Disclosure Schedule, are true, correct and complete copies of such documents as in effect as of the date of this Agreement. Capital Bank is the only Subsidiary of FOFC that qualifies as a "Significant Subsidiary," as such term is defined in Regulation S-X, promulgated by the SEC.

(b) Capital Bank is a commercial bank, duly organized and validly existing and in good standing under the Laws of New York. The deposit accounts of Capital Bank are insured by the FDIC through the Deposit Insurance Fund to the fullest extent permitted by law, and all premiums and assessments required in connection therewith have been paid by

Capital Bank. Capital Bank has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted and is duly licensed or qualified to do business in each jurisdiction in which the nature of any business conducted by it or the character or the location of any properties or assets owned or leased by it makes such licensing or qualification necessary, except where the failure to be so licensed or qualified would not have a Material Adverse Effect on Capital Bank. The organization
certificate and by-laws of Capital Bank, copies of which are attached as Section 3.2(b) of the FOFC Disclosure Schedule, are true, correct and complete copies of such documents as in effect as of the date of this Agreement.

(c) Except for Capital Bank and Capital Reprise LLC, FOFC does not own, directly or indirectly, 5% or more of the outstanding capital stock or other voting securities of any corporation, bank or other organization; and, with respect to Capital Bank, FOFC owns 2,656,370 shares of common stock of Capital Bank, constituting 100% of all of the outstanding capital stock of Capital Bank. The outstanding shares of common stock of Capital Bank have been duly authorized and validly issued and are fully paid and (except as provided by applicable Law) non-assessable. All such shares are directly or indirectly owned by FOFC, with no personal liability attaching to the ownership thereof. There are no authorized, issued or outstanding options or other rights with respect to the Capital Bank common stock. Except for the pledge of shares to Pioneer Savings Bank as collateral for a line of credit facility, such shares are free and clear of all Liens. None of the shares of Capital Bank common stock has been issued in violation of the preemptive rights of any Person.

(d) No bonds, debentures, notes or other indebtedness having the right to vote on any matters on which shareholders of FOFC may vote are issued or outstanding.

3.3. Authority; No Violation.

(a) FOFC has full corporate power and authority to execute and deliver this Agreement and, subject to receipt of the required regulatory and shareholder approvals specified herein, to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby and thereby have been duly and validly approved by the board of directors of FOFC. The board of directors of FOFC has directed that this Agreement and the transactions contemplated hereby be submitted to FOFC’s shareholders for approval at a special meeting of such shareholders and, except for the adoption of this Agreement by the requisite vote of FOFC’s shareholders, no other corporate proceedings on the part of FOFC (except for matters related to setting the date, time, place and record date for the special meeting) are necessary to approve this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by FOFC and will constitute valid and binding obligations of FOFC, enforceable against FOFC in accordance with its terms, except as enforcement may be limited by general principles of equity, and by bankruptcy, insolvency and similar Laws affecting creditors’ rights and remedies generally.

(b) Capital Bank has full corporate power and authority to execute and deliver the Bank Merger Agreement and, subject to receipt of the required regulatory and shareholder approvals specified herein, to consummate the transactions contemplated thereby. The execution and delivery of the Bank Merger Agreement and the consummation of the transactions contemplated thereby have been duly and validly approved by the board of directors of Capital Bank and by FOFC as the sole shareholder of Capital Bank. No other corporate proceedings on the part of Capital Bank will be necessary to consummate the transactions contemplated thereby. The Bank Merger Agreement, upon execution and delivery by Capital Bank, will be duly and validly executed and delivered by Capital Bank and will constitute a valid and binding obligation of Capital Bank, enforceable against Capital Bank in accordance with its terms, except as enforcement may be limited by general principles of equity and by bankruptcy, insolvency and similar Laws affecting creditors’ rights and remedies generally.

(c) Neither the execution and delivery of this Agreement by FOFC or the Bank Merger Agreement by Capital Bank, nor the consummation by FOFC or Capital Bank, as the case may be, of the transactions contemplated hereby or thereby, nor compliance by FOFC or Capital Bank with any of the terms or provisions hereof or thereof, will: (i) violate any provision of the certificate of incorporation or by-laws of FOFC; or (ii) assuming that the consents and approvals referred to in Section 3.4 are duly obtained, (x) violate any Laws applicable to FOFC or any of its properties or assets, or (y) violate, conflict with, result in a breach of any provision of or the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any Lien upon, any of the properties or assets of FOFC under any of the terms, conditions or provisions of

any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which FOFC is a party, or by which it or any of its properties or assets may be bound or affected.

3.4. Consents and Approvals.

(a) Except for: (i) the filing of applications, notices or waiver requests, as applicable, as to the Merger and the Bank Merger with the FRB, the FDIC and the NYSBD, as well as any other applications and notices required by Laws related to the Merger or the Bank Merger, and approval of the foregoing applications and notices; (ii) the approval of this Agreement by the requisite vote of the shareholders of CFC and FOFC; (iii) the filing of the Articles of Merger with the New York Secretary of State and the Delaware Secretary of State; (iv) such consents, approvals, orders, authorizations, registrations, declarations and filings as may be required under applicable Laws including, if applicable, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended and the securities or antitrust Laws of any foreign country; and (v) such filings, authorizations or approvals as may be set forth in Section 3.4 of the FOFC Disclosure Schedule, no consents or approvals of or filings or registrations with any Governmental Entity, or with any third party are necessary in connection with: (1) the execution and delivery by FOFC of this Agreement; (2) the consummation by FOFC of the Merger and the other transactions contemplated hereby; (3) the execution and delivery by Capital Bank of the Bank Merger Agreement; and (4) the consummation by Capital Bank of the Bank Merger and the transactions contemplated thereby, except in each case, for such consents, approvals or filings, the failure of which to obtain will not have a Material Adverse Effect on the ability of FOFC to consummate the transactions contemplated hereby.

(b) FOFC hereby represents to CFC that it has no Knowledge of any reason why approval or effectiveness of any of the applications, notices or filings referred to in Section 3.4(a) cannot be obtained or granted on a timely basis and that it will promptly notify CFC should it acquire such Knowledge.

3.5. Regulatory Filings.

FOFC and Capital Bank have filed all reports required by Laws to be filed with any Regulatory Authority, and such reports were prepared in accordance with the applicable Laws and instructions in existence as of the date of filing of such reports in all material respects, and none of the reports contain any untrue statement of a material fact. FOFC is not required to file any reports, schedules, registration statements or proxy statements with the SEC under the Securities Act or the Exchange Act and will promptly inform CFC if it becomes subject to such requirements prior to the Effective Time.

3.6. Agreements with Regulatory Agencies.

Except as set forth in Section 3.6 of the FOFC Disclosure Schedule, neither of FOFC or Capital Bank is subject to any cease-and-desist or other order issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or has adopted any board resolutions at the request of, any Regulatory Authority that restricts the conduct of its business or that in any manner relates to its capital adequacy, its credit policies, its earnings, its asset quality, its management or its business, nor has FOFC or Capital Bank been advised by any Governmental Entity that it is considering issuing or requesting any such agreement or action.

3.7. Compliance with Applicable Laws.

Except as set forth in Section 3.7 of the FOFC Disclosure Schedule, each of FOFC and Capital Bank has complied in all material respects with all Laws applicable to it or to the operation of its business. Neither FOFC nor Capital Bank has received any notice of any material alleged or threatened claim, violation, or liability under any such Laws that have not heretofore been cured and for which there is no remaining liability.

3.8. Legal Proceedings.

Except as set forth in Section 3.8 of the FOFC Disclosure Schedule: i) neither FOFC nor Capital Bank is a party to any, and there are no pending, or to the Knowledge of FOFC, threatened, legal, administrative, arbitration or other proceedings, claims, actions or governmental or regulatory investigations of any nature against FOFC or Capital Bank in which, to the Knowledge of FOFC, there is a reasonable probability of any material recovery against or other material effect upon FOFC or Capital Bank or which challenge the validity or propriety of the transactions contemplated by this Agreement or the Bank Merger Agreement; and ii) there is no injunction, order, judgment, decree, or regulatory restriction imposed upon FOFC, Capital Bank or their respective assets.

3.9. Securities Registration.

FOFC and Capital Bank are not under any obligation to register any of their securities under the Securities Act or any state securities laws.

3.10. Financial Statements; Books and Records.

FOFC has delivered to CFC the FOFC Regulatory Reports and the FOFC Financials, all of which fairly present in all material respects, the consolidated financial position of FOFC and Capital Bank as of the dates indicated and the consolidated results of operations, changes in shareholders' equity and, in the case of the audited financial statements, cash flows of FOFC and Capital Bank for the periods then ended and each such financial statement has been or will be, as the case may be, prepared in conformity with GAAP, as applicable, applied on a consistent basis. The FOFC Financials reflecting information after the date of this Agreement will fairly present in all material respects, the consolidated financial position of FOFC and Capital Bank as of the dates indicated and the consolidated results of operations, changes in shareholders' equity and, in the case of the audited financial statements, cash flows of FOFC and Capital Bank for the periods then ended and each such financial statement has been or will be, as the case may be, prepared in conformity with GAAP as applicable, applied on a consistent basis. The books and records of FOFC and Capital Bank fairly reflect in all material respects the transactions to which it is a party or by which its properties are subject or bound. Such books and records have been properly kept and maintained and are in compliance with all applicable Laws and accounting requirements in all material respects. The minute books of FOFC and Capital Bank contain records which are accurate in all material respects regarding all corporate actions of each of their respective shareholders and boards of directors (including committees of their respective boards of directors) set forth therein.

3.11. Tax Matters.

(a) FOFC and Capital Bank have timely filed federal income tax returns for the five (5) years ended through December 31, 2009, and have timely filed, or caused to be filed, all other federal, state, local and foreign tax returns (including, without limitation, estimated tax returns, returns required under Sections 1441-1446 and 6031-6060 of the Code and the regulations thereunder and any comparable state, foreign and local Laws, any other information returns, withholding tax returns, FICA and FUTA returns and back up withholding returns required under Section 3406 of the Code and any comparable state, foreign and local Laws and all applicable information reporting requirements under Part III, Subchapter A of Chapter 61 of the Code and similar applicable state and local information reporting requirements, required to be filed with respect to FOFC or Capital Bank. All taxes due in respect of the periods covered by such tax returns have been paid or adequate reserves have been established for the payment of such taxes and such reserves are reflected on the FOFC Financials, and as of the Closing Date, all taxes due in respect of any subsequent periods (or portions thereof) ending on or prior to the Closing Date will have been paid or adequate reserves will have been established for the payment thereof. Except as set forth in Section 3.11(a) of the FOFC Disclosure Schedule, no material: (i) audit examination; (ii) deficiency; or (iii) refund litigation with respect to such returns or periods has been proposed, asserted or assessed or is pending. To the best of their Knowledge, neither FOFC nor Capital Bank will have any liability for any such taxes in excess of the amounts so paid or reserves or accruals so established.

(b) Except as set forth in Section 3.11.(b) the FOFC Disclosure Schedule, all federal, state and local (and, if applicable, foreign) tax returns filed by FOFC since December 2007, are complete and accurate in all material respects. Neither FOFC nor Capital Bank is delinquent in the payment of any material Tax, assessment or governmental charge, and none of them has requested any extension of time within which to file any tax returns in respect of any fiscal year or portion thereof which have not since been filed. No material deficiencies for any Tax, assessment or governmental charge have been proposed, asserted or assessed (tentatively or otherwise) against FOFC or Capital Bank, which have not been settled and paid. There are currently no agreements in effect with respect to

FOFC or Capital Bank to extend the period of limitations for the assessment or collection of any Tax.

(c) Neither the transactions contemplated hereby nor the termination of the employment of any employees of FOFC or Capital Bank prior to or following consummation of the transactions contemplated hereby could result in FOFC or Capital Bank making or being required to make any "excess parachute payment" as that term is defined in Section 280G of the Code. Except as set forth in Section 3.11(c) of the FOFC Disclosure Schedule, neither FOFC nor Capital Bank is a party to any agreement, arrangement, or plan that has resulted, or would result, individually or in the aggregate, in connection with this Agreement, in the payment of any "excess parachute payments" within the meaning of Section 280G of the Code.

(d) Except as set forth in Section 3.11(d) of the FOFC Disclosure Schedule, neither FOFC nor Capital Bank is a party to any agreement providing for the allocation or sharing of, or indemnification for, Taxes.

(e) To their Knowledge, neither FOFC nor Capital Bank is required to include in income any adjustment in any taxable period ending after the date hereof pursuant to Section 481(a) of the Code.

(f) Except as set forth in Section 3.11(f) of the FOFC Disclosure Schedule, neither FOFC nor Capital Bank has entered into any agreement with any taxing authority that will bind CFC or Chemung Bank after the Closing Date.

3.12. Undisclosed Liabilities.

Neither FOFC nor Capital Bank has any liability (contingent or otherwise), excluding contractually assumed contingencies of the nature required to be disclosed in a balance sheet (including the notes thereto) prepared in accordance with GAAP, except: (i) as disclosed in the FOFC Regulatory Reports, FOFC Financial Statements or as provided to CFC in connection with its due diligence inquiry; (ii) for liabilities incurred in the ordinary course of business subsequent to the date hereof consistent with past practice that, either alone or when combined with all similar liabilities, have not had, and would not reasonably be expected to have, a Material Adverse Effect on FOFC; (iii) for liabilities incurred in connection with this Agreement and the transactions contemplated hereby; or (iv) as set forth in Section 3.12 of the FOFC Disclosure Schedule.

3.13. Properties and Assets.

(a) Section 3.13 of the FOFC Disclosure Schedule lists: (i) all real property owned by FOFC and Capital Bank; (ii) each real property lease, sublease or installment purchase arrangement to which FOFC's or Capital Bank is a party; (iii) a description of each contract for the purchase, sale, or development of real estate to which FOFC or Capital Bank is a party; and (iv) all items of FOFC or Capital Bank's tangible personal property and equipment with a book value of $25,000 or more or having any annual lease payment of $10,000 or more. Except as set forth in Section 3.13 of the FOFC Disclosure Schedule, FOFC and Capital Bank have good and marketable title free and clear of all Liens on all of the properties and assets, real and personal, which, individually or in the aggregate, are material to the business of FOFC and Capital Bank taken as a whole, and which are reflected on the FOFC Financials, except: (i) Liens for Taxes not yet due and payable; (ii) pledges to secure deposits and other Liens incurred in the ordinary course of banking business; (iii) such imperfections of title, easements and encumbrances, if any, as are not material in character, amount or extent; and (iv) the pledge of all of the outstanding shares of the common stock of Capital Bank to Pioneer Savings Bank as collateral for a line of credit facility. All leases pursuant to which FOFC or Capital Bank, as lessee, leases real and personal property which, individually or in the aggregate, are material to the business of FOFC and Capital Bank taken as a whole, are assignable, valid and enforceable in accordance with their respective terms, except where the failure of such lease or leases to be valid and enforceable would not, individually or in the aggregate, have a Material Adverse Effect on FOFC. All leases pursuant to which FOFC or Capital Bank, as lessee, leases real and personal property which, individually or in the aggregate, are material to the business of FOFC and Capital Bank taken as a whole, are valid and binding in accordance with their respective terms with respect to the Surviving Corporation and enforceable by the Surviving Corporation, except where the failure of such lease or leases to be valid, binding and enforceable would not, individually or in the aggregate, have a Material Adverse Effect on FOFC.

(b) Neither FOFC nor Capital Bank has experienced any material uninsured damage or destruction with respect to such properties. All properties and assets used by FOFC and Capital Bank are in good operating condition and repair suitable for the purposes for which they are currently utilized and comply in all material respects with all Laws relating thereto now in effect or, to FOFC's Knowledge, scheduled to become effective. FOFC and Capital Bank enjoy peaceful and undisturbed possession under all leases for the use of all property under which they are the lessees. Neither FOFC nor Capital Bank is in material default with respect to any such lease, and there has occurred no

default, or event, which with the lapse of time or the giving of notice, or both, would constitute a material default, by FOFC or Capital Bank under any such lease. There are no Laws, conditions of record, or other impediments which interfere with the intended use by FOFC or Capital Bank of any of the property owned, leased, or occupied by them.

3.14. Insurance.

Section 3.14 of the FOFC Disclosure Schedule contains a true, correct and complete list of all insurance policies and bonds maintained by FOFC and Capital Bank, including the name of the insurer, the policy number, the type of policy and any applicable deductibles, and all such insurance policies and bonds are in full force and effect and have been in full force and effect since their respective dates of inception. As of the date hereof, neither FOFC nor Capital Bank has received any notice of cancellation or amendment of any such policy or bond or is in default under any such policy or bond; no coverage thereunder is being disputed and all material claims thereunder have been filed in a timely fashion. The existing insurance carried by FOFC and Capital Bank is and will continue to be, in respect of the nature of the risks insured against and the amount of coverage provided, sufficient for compliance by FOFC and Capital Bank with all requirements of Law and agreements to which FOFC or Capital Bank is subject or is a party, and is, to FOFC's Knowledge, substantially similar in kind and amount to that customarily carried by parties similarly situated who own properties and engage in businesses substantially similar to that of FOFC and Capital Bank.

3.15. Reserves.

To FOFC's Knowledge, all reserves or other allowances for possible losses reflected in the FOFC Financials comply in all material respects with all Laws and are adequate under GAAP. Neither FOFC nor Capital Bank has been notified by any Regulatory Authority or FOFC's independent auditor, in writing or otherwise, that such reserves are inadequate or that the practices and policies of FOFC or Capital Bank in establishing such reserves and in accounting for delinquent and classified assets generally fail to comply with applicable accounting or regulatory requirements, or that any Regulatory Authority or FOFC's independent auditor believes such reserves to be inadequate or inconsistent with the historical loss experience of FOFC or Capital Bank. FOFC has previously furnished to CFC a complete list of all extensions of credit and OREO that have been classified by any Regulatory Authority as other loans specially mentioned, substandard, doubtful, loss, classified or criticized, credit risk assets, concerned loans or words of similar import. FOFC agrees to update such list no less frequently than monthly after the date of this Agreement until the earlier of the Closing Date or the date that this Agreement is terminated in accordance with Article VI. All OREO held by FOFC or Capital Bank is being carried net of reserves at the lower of cost or net realizable value.

3.16. Loans.

(a) To FOFC's Knowledge, all loans owned by FOFC or Capital Bank, or in which FOFC or Capital Bank has an interest: (i) comply in all material respects with all Laws, including, but not limited to, applicable usury statutes, fair lending laws and regulations, the Truth in Lending Act, the Equal Credit Opportunity Act, and the Real Estate Settlement Procedures Act, and other applicable consumer protection Laws thereunder; and (ii) have been made or acquired in accordance with board of director-approved loan policies and all of such loans are presently collectable, except to the extent reserves have been made against such loans in the FOFC Financials.

(b) To FOFC's Knowledge, each of FOFC and Capital Bank holds mortgages contained in its loan portfolio for its own benefit to the extent of its interest shown therein; such mortgages evidence Liens having the priority indicated by the terms of such mortgages, including the associated loan documents, subject, as of the date of recordation or filing of applicable security instruments, only to such exceptions as are discussed in attorneys' opinions regarding title or in title insurance policies in the mortgage files relating to the loans secured by real property or are not material as to the collectability of such loans; and all loans owned by FOFC and Capital Bank are with full recourse to the borrowers (except as set forth at Section 3.16(b) of the FOFC Disclosure Schedule), and each of FOFC and Capital Bank has taken no action which would result in a waiver or negation of any rights or remedies available against the borrower or guarantor, if any, on any loan. All applicable remedies against all borrowers and guarantors are enforceable except as may be limited by bankruptcy, insolvency, moratorium or other similar Laws affecting creditors' rights and except as may be limited by the exercise of judicial discretion in applying principles of equity. Except as set forth at Section

3.16(b) of the FOFC Disclosure Schedule, all loans purchased or originated by FOFC or Capital Bank and subsequently sold have been sold without recourse to FOFC or Capital Bank and without any liability under any yield maintenance or similar obligation. True, correct and complete copies of loan delinquency reports as of August 31, 2010, prepared by FOFC and Capital Bank, which reports include all loans delinquent or otherwise in default, have been furnished to CFC. True, correct and complete copies of the currently effective lending policies and practices of FOFC and Capital Bank also have been furnished to CFC.

(c) Except as set forth at Section 3.16(c) of the FOFC Disclosure Schedule, to FOFC's Knowledge, each outstanding loan participation sold by FOFC or Capital Bank was sold with the risk of non-payment of all or any portion of that underlying loan to be shared by each participant proportionately to the share of such loan represented by such participation without any recourse of such other lender or participant to FOFC or Capital Bank for payment or repurchase in excess thereof. FOFC and Capital Bank have properly fulfilled in all material respects the contractual responsibilities and duties in any loan in which it acts as the lead lender or servicer and has complied in all material respects with its duties as required under applicable Laws.

(d) FOFC and Capital Bank have properly perfected all security interests, Liens, or other interests in any collateral securing any loans made by them.

(e) Section 3.16(e) of the FOFC Disclosure Schedule sets forth a list of all loans or other extensions of credit to all directors, officers and employees, or any other Person covered by FRB Regulation O. All such loans: (i) were made in the ordinary course of business; (ii) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other Persons; and (iii) did not involve more than the normal risk of collectability or present other unfavorable features. No such loan is presently in default.

3.17. Investment Securities.

(a) Except for Liens disclosed on Section 3.17(a) of the FOFC Disclosure Schedule and except for restrictions that exist for securities that are classified as "held to maturity", none of the investment securities held by FOFC is subject to any restriction (contractual or statutory) that would materially impair the ability of the entity holding such investment freely to dispose of such investment at any time.

(b) Except as disclosed on Section 3.17(b) of the FOFC Disclosure Schedule, FOFC is not a party to and has not agreed to enter into an exchange-traded or over-the-counter equity, interest rate, foreign exchange or other swap, forward, future, option, cap, floor or collar or any other contract that is a derivative contract (including various combinations thereof) or owns securities that: (i) are referred to generically as "structured notes," "high risk mortgage derivatives," "capped floating rate notes" or "capped floating rate mortgage derivatives" or (ii) are likely to have changes in value as a result of interest or exchange rate changes that significantly exceed normal changes in value attributable to interest or exchange rate changes.

3.18. Deposits.

Except as set forth in Section 3.18 of the FOFC Disclosure Schedule, none of the deposits of Capital Bank is a "brokered deposit" as defined in the FDIC regulations (12 CFR Section 337.6(a)(2)).

3.19. Labor Matters.

With respect to their employees, neither FOFC nor Capital Bank is a party to any labor agreement with any labor organization, group or association and has not engaged in any unfair labor practice. FOFC and Capital Bank have not experienced any attempt by organized labor or its representatives to make FOFC or Capital Bank conform to demands of organized labor relating to their employees or to enter into a binding agreement with organized labor that would cover the employees of FOFC or Capital Bank. There is no unfair labor practice charge or other complaint by any employee or former employee of FOFC or Capital Bank against any of them pending before any Governmental Entity arising out of FOFC's or Capital Bank's activities, which charge or complaint: (i) has a reasonable probability of an unfavorable outcome; and (ii) in the event of an unfavorable outcome would, individually or in the aggregate, have a Material Adverse Effect on FOFC. There is no labor strike or labor disturbance pending or threatened against any of them; and neither FOFC nor Capital Bank has experienced a work stoppage or other labor difficulty. FOFC and

Capital Bank are in material compliance with all applicable Laws respecting employment, retention of independent contractors, employment practices, terms and conditions of employment and wages and hours.

3.20. Employee Benefit Plans.

(a) FOFC Disclosure Schedule 3.20(a) hereto sets forth a true and complete list of: (i) each employment agreement or change in control agreement (whether written or oral) FOFC or Capital Bank has entered into with any employee, director or officer of FOFC or Capital Bank; and (ii) each pension, retirement, stock option, stock purchase, stock ownership, savings, stock appreciation right, profit sharing, deferred compensation, consulting, bonus, group insurance, severance and other benefit plans, contracts agreements and arrangements, including, but not limited to "employee benefit plans (within the meaning of Section 3(3) of ERISA), incentive policies, insurance contracts, plans and arrangements and all trust agreements related thereto, sponsored, maintained or adopted by FOFC or Capital Bank (hereinafter, a "Plan") with respect to any present or former directors, officers or employees of FOFC and/or Capital Bank.

(b) Except as set forth on FOFC Disclosure Schedule 3.20(b), with respect to each of the FOFC or Capital Bank Plans, FOFC has made available to CFC true and complete copies of each of the following documents: (i) the Plan and related documents (including all amendments thereto); (ii) the most recent annual reports, financials, and actuarial reports, if any; (iii) the most recent summary plan description, together with each summary of material modifications, required under ERISA with respect to such Plan; and (iv) the most recent determination letter received from the IRS with respect to each Plan that is intended to be qualified under the Code.

(c) No liability under Title IV of ERISA has been incurred by FOFC or any entity which is treated as a single employer with FOFC for purposes of Code Section 414 (an "ERISA Affiliate") since the effective date of ERISA that has not been satisfied in full, and no condition exists that presents a material risk to FOFC or any ERISA Affiliate of FOFC of incurring a liability under such Title, other than liability for premium payments to the Pension Benefit Guaranty Corporation, which premiums have been or will be paid when due.

(d) Neither FOFC nor any ERISA Affiliate of FOFC, nor any of the Plans, nor any trust created thereunder, nor any trustee or administrator thereof has engaged in a prohibited transaction (within the meaning of Section 406 of ERISA and Section 4975 of the Code) in connection with which FOFC or any ERISA Affiliate of FOFC could, either directly or indirectly, incur a material liability or cost.

(e) Full payment has been made, or will be made in accordance with Section 404(a)(6) of the Code, of all amounts that FOFC or any ERISA Affiliate of FOFC is required to pay under Section 412 of the Code or under the terms of the Plans.

(f) Except as set forth on FOFC Disclosure Schedule 3.20(f), there has been no Material Adverse Effect in the funded status of any FOFC Plan that is subject to Title IV of ERISA since the inception of such FOFC Plan. No reportable event under Section 4043 of ERISA has occurred or will occur with respect to any FOFC Plan on or before the Closing Date other than any reportable event occurring by reason of the transactions contemplated by this Agreement or a reportable event for which the requirement of notice to the PBGC has been waived.

(g) None of the Plans is a "multiemployer pension plan," as such term is defined in Section 3(37) of ERISA, a "multiple employer welfare arrangement," as such term is defined in Section 3(40) of ERISA, or a single employer plan that has two or more contributing sponsors, at least two of whom are not under common control, within the meaning of Section 4063(a) of ERISA.

(h) Except as set forth on FOFC Disclosure Schedule 3.20(h)(1), a favorable determination letter has been issued by the IRS with respect to the each of the Plans that is intended to be "qualified" within the meaning of Section 401(a) of the Code to the effect that such plan is so qualified and each such FOFC Plan satisfies the requirements of Section 401(a) of the Code in all material respects. Each of the FOFC Plans that is intended to satisfy the requirements of

Section 125 or 501(c)(9) of the Code satisfies such requirements in all material respects. To FOFC's best Knowledge and except as set forth on Schedule 3.20(h)(2), each of the Plans has been operated and administered in all material respects in accordance with its terms and applicable laws, including but not limited to ERISA and the Code.

(i) There are no actions, suits or claims pending, or, to the Knowledge of FOFC, threatened (other than routine claims for benefits) against any Plan, the assets of any Plan or against FOFC or any ERISA Affiliate of FOFC with respect to any Plan. There is no judgment, decree, injunction, rule or order of any court, governmental body, commission, agency or arbitrator outstanding against or in favor of any Plan or any fiduciary thereof (other than rules of general applicability). To the Knowledge of FOFC, there are no pending or threatened audits, examinations or investigations by any governmental body, commission or agency involving any Plan.

(j) Except as contemplated by this Agreement and as set forth on FOFC Disclosure Schedules 3.20(a) and 3.20(j), the consummation of the transactions contemplated by this Agreement will not: (i) entitle any current or former employee or director of FOFC or any ERISA Affiliate of FOFC to severance pay, accrued sick pay, unemployment compensation or any similar payment; (ii) accelerate the time of payment or vesting, or increase the amount, of any compensation due to any such current or former employee or director; (iii) renew or extend the term of any agreement regarding compensation for any such current or former employee or director; or (iv) result in a “change in control” or the occurrence of any other event specified in the agreements which would entitle any party to such agreements to any payment thereunder.

(k) Each Plan which is subject to the health care continuation requirements of Part 6 of Subtitle B of Title I of ERISA or Section 4980B of the Code (“COBRA”) has been administered in material compliance with such requirements.

(l) To the Knowledge of FOFC, each Plan has been operated and administered in all material respects in accordance with its terms and applicable Laws, including, but not limited to, ERISA, the Code, the Securities Act, the Age Discrimination in Employment Act, COBRA, the Health Insurance Portability and Accountability Act of 1996 and any rules or regulations promulgated thereunder.

3.21. Environmental Matters.

(a) Each of FOFC and Capital Bank is in material compliance with all applicable Laws relating to pollution or protection of the environment (including without limitation, Laws relating to emissions, discharges, releases and threatened releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials).

(b) There is no suit, claim, action, proceeding, investigation or notice pending or, to the Knowledge of FOFC and Capital Bank, threatened (or past or present actions or events that could form the basis of any such suit, claim, action, proceeding, investigation or notice), in which FOFC or Capital Bank has been or, with respect to threatened suits, claims, actions, proceedings, investigations or notices, may be, named as a defendant: (x) for alleged material noncompliance (including by any predecessor), with any environmental law, rule or regulation; or (y) relating to any material release or threatened release into the environment of any Hazardous Material, occurring at or on a site owned, leased or operated by FOFC or Capital Bank, or to the Knowledge of FOFC, relating to any material release or threatened release into the environment of any Hazardous Material, occurring at or on a site not owned, leased or operated by FOFC or Capital Bank.

(c) During FOFC’s or Capital Bank’s ownership or operation of any of their properties, there has not been any material release of Hazardous Materials in, on, under or affecting any such property.

(d) To the Knowledge of FOFC and Capital Bank, neither of them has made or participated in any loan to any Person who is subject to any suit, claim, action, proceeding, investigation or notice, pending or threatened, with respect to: (i) any alleged material noncompliance as to any property securing such loan with any environmental Law; or (ii) the release or the threatened release into the environment of any Hazardous Material at a site owned, leased or

operated by such Person on any property securing such loan.

3.22. Internal Controls.

(a) FOFC and Capital Bank maintain a standard system of accounting established and administered in accordance with GAAP and applicable Laws. FOFC is not required to implement or maintain disclosure controls and procedures as defined in Rule 13a-15(e) of the Exchange Act.

(b) Neither FOFC nor Capital Bank, or any of their respective directors or officers, or, to their Knowledge, any of their respective employees, accountants or auditors, has received or otherwise had or obtained Knowledge of any complaint, allegation, assertion or claim, whether written or oral, regarding the accounting or auditing practices and procedures of FOFC or Capital Bank, or their respective internal accounting controls. There have been no internal investigations regarding accounting or revenue recognition discussed with, reviewed by, or initiated at the direction of, the chief executive officer, chief financial officer, general counsel, the board of directors of FOFC or Capital Bank or any committee thereof.

(c) No attorney representing FOFC or Capital Bank, whether or not employed by FOFC or Capital Bank, has reported evidence of a material violation of securities Laws, breach of fiduciary duty or similar violation by FOFC or Capital Bank or any of their respective officers, directors, employees or agents to the board of directors of FOFC or Capital Bank, to any committee thereof or to any director or officer of FOFC or Capital Bank.

(d) To the Knowledge of FOFC, no employee of FOFC or Capital Bank has provided or is providing information to any law enforcement agency regarding the commission or possible commission of any crime or the violation or possible violation of any applicable Law. To the Knowledge of FOFC, neither FOFC nor Capital Bank nor any of their respective officers, employees, contractors, subcontractors or agents has discharged, demoted, suspended, threatened, harassed or in any other manner discriminated against an employee of FOFC or Capital Bank in the terms and conditions of employment because of any act of such employee described in 18 U.S.C. Section 1514A(a).

3.23. Intellectual Property.

(a) Except as set forth in Section 3.23 of the FOFC Disclosure Schedule, FOFC or Capital Bank owns the entire right, title and interest in and to, or has valid licenses or otherwise has the required legal rights with respect to, all of the Intellectual Property necessary in all material respects to conduct the business and operations of FOFC and Capital Bank, as presently conducted. None of such Intellectual Property is subject to any outstanding order, decree, judgment, stipulation, settlement, or Liens. Upon consummation of the transactions contemplated by this Agreement, CFC and Chemung Bank will be entitled to continue to use all such Intellectual Property, without the payment of any fees, licenses or other payments (other than ongoing payments required under license agreements for software used by FOFC or Capital Bank in previously disclosed amounts, consistent with past practice).

(b) The conduct of the business and operations of FOFC and Capital Bank does not infringe or otherwise conflict with the rights of any Person in respect of any patents, copyrights, trade secrets, trade names, servicemarks, trademarks, domain names, software, or internet websites. None of the Intellectual Property is being infringed or otherwise used or being made available for use by any Person without a license or permission from FOFC or Capital Bank.

3.24. Material Contracts.

(a) Except as disclosed in Section 3.24 of the FOFC Disclosure Schedule, neither FOFC nor Capital Bank is a party to, or is bound by: (i) any material contract as defined in Item 601(b)(10) of Regulation S-K of the SEC or any other material contract or similar arrangement whether or not made in the ordinary course of business (other than loans or loan commitments and funding transactions in the ordinary course of business of Capital Bank) including, but not limited to any contract arrangement, commitment or understanding (whether written or oral) with respect to the employment of any officer, director, employee or consultant of FOFC or Capital Bank, or any agreement restricting the nature or geographic scope of its business activities in any material respect; or (ii) any agreement, indenture or other instrument relating to the borrowing of money by FOFC or Capital Bank or the guarantee by FOFC or Capital Bank of any such obligation, other than instruments relating to transactions entered into in the customary course of business.

(b) Neither FOFC nor Capital Bank, nor to their Knowledge, any of their counter-parties, is in default under any material agreement, commitment, arrangement, lease, insurance policy or other instrument, whether entered into in the ordinary course of business or otherwise and whether written or oral, and there has not occurred any event that, with the lapse of time or giving of notice or both, would constitute such a default, except for such defaults which would not, individually or in the aggregate, have a Material Adverse Effect on FOFC.

3.25. Absence of Certain Changes or Events.

Except for entering into this Agreement and except as set forth in FOFC Disclosure Schedule 3.25 (in each case, identified by the appropriate paragraph of this Section 3.25), since December 31, 2009:

(a) FOFC and Capital Bank have conducted their respective businesses only in the ordinary and usual course of such businesses consistent with their past practices;

(b) there has not been any event or occurrence that has had, or is reasonably expected to have, a Material Adverse Effect on FOFC or Capital Bank;

(c) FOFC and Capital Bank have not declared, paid or set aside any dividends or distributions with respect to the FOFC Common Stock;

(d) except for supplies or equipment purchased in the ordinary course of business, neither FOFC nor Capital Bank has made any capital expenditures exceeding individually or in the aggregate $50,000;

(e) there has not been any write-down or specific reserve established by Capital Bank in excess of $250,000 with respect to any of its loans or OREO;

(f) there has not been any sale, assignment or transfer of any assets by FOFC or Capital Bank in excess of $50,000 other than in the ordinary course of business;

(g) there has been no increase in the salary, compensation, pension or other benefits payable or to become payable by FOFC or Capital Bank to any of their respective directors, officers or employees, other than in conformity with the policies and practices of such entity in the usual and ordinary course of its business;

(h) Except as set forth in Section 3.25(h) of the FOFC Disclosure Schedule, neither FOFC nor Capital Bank has paid or made any accrual or arrangement for payment of bonuses or special compensation of any kind or any severance or termination pay to any of their directors, officers or employees; and

(i) there has been no change in any accounting principles, practices or methods of FOFC or Capital Bank other than as required by GAAP.

3.26. Affiliate Transactions.

(a) All “covered transactions” between FOFC and Capital Bank and an “Affiliate” within the meaning of Sections 23A and 23B of the Federal Reserve Act and the FRB regulations thereunder have been in compliance with such provisions.

(b) Except as set forth in FOFC Disclosure Schedule 3.26(b), neither FOFC nor Capital Bank is a party to any transaction (including any loan or other credit accommodation) with any Affiliate of FOFC or Capital Bank. All such transactions set forth therein: (i) were made in the ordinary course of business; (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other Persons; and (c) did not involve more than the normal risk of collectability or present other unfavorable features. No loan or credit accommodation to any Affiliate of FOFC or Capital Bank is presently in default or, during the three-year period prior to the date of this Agreement, has been in default or has been restructured, modified or extended. Neither FOFC nor Capital Bank has been notified that principal and interest with respect to any such loan or other credit accommodation will not be paid when due. No Regulatory Authority has informed FOFC or Capital Bank

that the loan grade classification accorded such loan or credit accommodation by FOFC or Capital Bank is inappropriate.

3.27. Material Interests of Certain Persons.

Except as set forth in FOFC Disclosure Schedule 3.27, no current or former officer or director of FOFC or Capital Bank, or any family member or Affiliate of any such Person, has any material interest, directly or indirectly, in any contract or property (real or personal), tangible or intangible, used in or pertaining to the business of FOFC or Capital Bank.

3.28. Anti-Takeover Provisions.

No provisions of FOFC's organizational documents and no state anti-takeover Law, including, but not limited to "fair price," "moratorium," "control share acquisition" or similar Laws:(i) applies to the Merger, the Agreement or the Bank Plan of Merger; (ii) prohibits or restricts the ability of FOFC or Capital Bank to perform their respective obligations under this Agreement, or their respective ability to consummate the transactions contemplated hereby; (iii) would have the effect of invalidating or voiding this Agreement, the Bank Plan of Merger or the Merger; or (iv) would subject CFC or Chemung Bank to any material impediment or condition in connection with the exercise of any of its rights under this Agreement, the Bank Plan of Merger or the Merger.

3.29. Fees.

Neither FOFC nor Capital Bank, nor any of their respective officers, directors or employees, has employed any broker, finder or financial advisor or incurred any liability for any fees or commissions in connection with the transactions contemplated herein or the Bank Plan of Merger, except for FOFC's retention of FinPro to perform certain financial advisory services.

3.30. Fairness Opinion.

FOFC has received the opinion of FinPro to the effect that, as of the date hereof, the Merger Consideration is fair, from a financial point of view, to FOFC and its shareholders.

3.31. Bank Secrecy Act and CRA Compliance.

(a) Except as set forth in Section 3.31 of the FOFC Disclosure Schedule, FOFC is not aware of, has not been advised of, and has no reason to believe in, the existence of any facts or circumstances which would cause it or Capital Bank to be deemed to be: (i) operating in violation of the Bank Secrecy Act or the Patriot Act and the regulations promulgated thereunder, the regulations promulgated and administered by OFAC, any order issued with respect to anti-money laundering by the DOJ or FinCEN, any order issued by OFAC, or any other applicable anti-money laundering laws; or (ii) not in satisfactory compliance with the applicable privacy and customer information requirements contained in any privacy, data protection or security breach notification Laws, including, without limitation, the GLBA and the provisions of the information security program adopted pursuant to 12 CFR. Part 40. FOFC is not aware of any facts or circumstances which would cause it to believe that any non-public customer information has been disclosed to or accessed by an unauthorized third Person in a manner which would cause it or Capital Bank to undertake any remedial action. FOFC or Capital Bank has adopted and implemented an anti-money laundering program that contains adequate and appropriate customer identification and verification procedures that comply with all applicable Laws.

(b) Capital Bank has received a rating of "Outstanding" in its most recent examination or interim review with respect to the CRA. FOFC is not aware of, has not been advised of, and has no reason to believe that any facts or circumstances exist that would cause Capital Bank: (i) to be deemed not to be in satisfactory compliance in any material respect with the CRA, and the regulations promulgated thereunder, or to be assigned a CRA rating of lower than "satisfactory" by any Regulatory Authority.

3.32. Tax Treatment of the Merger.

FOFC has no Knowledge of any fact or circumstance relating to it that would prevent the transactions contemplated by this Agreement from qualifying as a reorganization under Section 368 of the Code with respect to the portion of the Merger Consideration consisting of shares of CFC Common Stock, such that the exchange of CFC Common Stock for

FOFC Common Stock and cash will not give rise to a Tax recognition event for the shareholders of FOFC with respect to such portion of the merger consideration comprised of CFC Common Stock.

3.33. FOFC Information.

The information relating to FOFC and Capital Bank provided herein and to be provided by FOFC to be contained in the Joint Proxy Statement-Prospectus do not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein or therein, in light of the circumstances in which they are made, not misleading. The Joint Proxy Statement-Prospectus (except for the portions thereof relating solely to CFC and Chemung Bank, as to which FOFC makes no representation or warranty) will comply in all material respects with the provisions of applicable Laws.

3.34. Trust Powers.

Capital Bank does not exercise trust powers or act as a fiduciary, trustee, agent, custodian, personal representative, guardian, conservator or investment advisor with respect to assets held other than acting as a trustee or custodian with respect to IRA accounts related to insured deposits or as trustee or custodian for other insured deposits held.

3.35. Indemnification.

Except as set forth in FOFC Disclosure Schedule 3.35 and except as provided in FOFC's indemnification agreement with FinPro, or the organizational documents of FOFC and Capital Bank, neither FOFC nor Capital Bank is a party to any indemnification agreement with any of its present, past or future directors, officers, employees, agents or other Persons who serve or served in any other capacity with any other enterprise at the request of FOFC or Capital Bank and, except as set forth in FOFC Disclosure Schedule 3.35, to FOFC's Knowledge, there are no claims for which any Person would be entitled to indemnification by FOFC or Capital Bank under their organizational documents, applicable Laws or any indemnification agreements or understandings.

3.36. Voting and Non-Competition Agreement.

(a) Each director of FOFC, except for Peter D. Cureau, has delivered to CFC, concurrently with the execution of this Agreement, the Voting and Non-Competition Agreement in the form of Exhibit B hereto. To FOFC's best Knowledge, the Voting and Non-Competition Agreement has been duly and validly executed and delivered by each Person that is a party thereto and constitutes the valid and binding obligation of such Person, enforceable against such Person in accordance with its terms, except as enforcement may be limited by general principles of equity, whether applied in a court of law or a court of equity and by bankruptcy, insolvency and similar Laws affecting creditors' rights and remedies generally.

(b) Peter D. Cureau, has delivered to CFC, concurrently with the execution of this Agreement, the Voting Agreement. To FOFC's best Knowledge, the Voting Agreement has been duly and validly executed and delivered by Peter D. Cureau and constitutes his valid and binding obligation, enforceable against him in accordance with its terms, except as enforcement may be limited by general principles of equity, whether applied in a court of law or a court of equity and by bankruptcy, insolvency and similar Laws affecting creditors' rights and remedies generally.

3.37. Information Security

FOFC and Capital Bank have taken reasonable precautions to safeguard the information technology networks and systems utilized in the operation of its business, including the implementation of procedures to ensure that such information technology systems are materially free from disabling codes or instructions, timers, copy protection devices, "back door", "time bomb", "Trojan horse:, "worm", "virus" or other software routines or hardware components that in each case permits unauthorized access or the unauthorized disablement or unauthorized erasure of data or other software by a third party, and to the Knowledge of FOFC and Capital Bank, to date there have been no successful

unauthorized intrusions or breaches of the security of the information technology systems.

Article IV
Representations And Warranties of CFC

CFC hereby makes the following representations and warranties to FOFC, each of which is being relied upon by FOFC as a material inducement to enter into and perform this Agreement. All of the disclosure schedules of CFC referenced below and thereby required of CFC pursuant to this Agreement, which disclosure schedules shall be cross-referenced to the specific sections and subsections of this Agreement and delivered herewith, are referred to herein as the "CFC Disclosure Schedule."

4.1. Capitalization.

The authorized capital stock of CFC consists of 10,000,000 shares of common stock, par value $.01 per share, of which, as of the date hereof, 4,300,134 shares are issued, 3,512,925 shares are outstanding and 787,209 shares are held in treasury. Except for shares reserved in connection with CFC director compensation, as set forth in CFC Disclosure Schedule 4.1, as of the date hereof, no shares of CFC Common Stock are reserved for issuance. All outstanding shares of CFC Common Stock have been duly authorized and validly issued and are fully paid and non-assessable, with no personal liability attaching to the ownership thereof. There are no authorized, issued or outstanding options or other rights with respect to the CFC Common Stock. None of the shares of CFC Common Stock has been issued in violation of the preemptive rights of any Person.

4.2. Corporate Organization.

(a) CFC is a duly organized corporation, validly existing and in good standing under the laws of New York, with full corporate power and authority to carry on its business as now conducted and is duly licensed or qualified to do business in the states of the United States and foreign jurisdictions where its ownership or leasing of property or the conduct of its business requires such qualification, except where the failure to be so licensed or qualified would not have a Material Adverse Effect on CFC. CFC is registered as a financial holding company under the BHCA. The certificate of incorporation and by-laws of CFC, copies of which are attached as Section 4.2(a) of the CFC Disclosure Schedule, are true, correct and complete copies of such documents as in effect as of the date of this Agreement. Chemung Bank is the only Subsidiary of CFC that qualifies as a "Significant Subsidiary," as such term is defined in Regulation S-X, promulgated by the SEC.

(b) Chemung Bank is a commercial bank, duly organized and validly existing and in good standing under the laws of New York. Chemung Bank has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted and is duly licensed or qualified to do business in each jurisdiction in which the nature of any business conducted by it or the character or the location of any properties or assets owned or leased by it makes such licensing or qualification necessary. The organization certificate and by-laws of Chemung Bank, copies of which are attached in Section 4.2(b) of the CFC Disclosure Schedule, are true, correct and complete copies of such documents as in effect as of the date of this Agreement.

4.3. Authority; No Violation.

(a) CFC has full corporate power and authority to execute and deliver this Agreement and, subject to receipt of the required regulatory approvals specified herein, to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby and thereby have been duly and validly approved by the board of directors of CFC. The board of directors of CFC has directed that this Agreement and the transactions contemplated hereby be submitted to CFC's shareholders for approval at a special meeting of such shareholders and, except for the adoption of this Agreement by the requisite vote of CFC's shareholders, no other corporate proceedings on the part of CFC (except for matters related to setting the date, time, place and record date for the special meeting) will be necessary to consummate the transactions contemplated thereby. This Agreement has been duly and validly executed and delivered by CFC and will constitute valid and binding obligations of CFC, enforceable against CFC in accordance with its terms, except as enforcement may be limited by general principles of equity, and by bankruptcy, insolvency and similar Laws affecting creditors' rights and remedies generally.

(b) Chemung Bank has full corporate power and authority to execute and deliver the Bank Merger Agreement and, subject to receipt of the required regulatory approvals specified herein, to consummate the transactions contemplated thereby. The execution and delivery of the Bank Merger Agreement and the consummation of the transactions

contemplated thereby have been duly and validly approved by the board of directors of Chemung Bank and by CFC as the sole shareholder of Chemung Bank. No other corporate proceedings on the part of Chemung Bank will be necessary to consummate the transactions contemplated thereby. The Bank Merger Agreement, upon execution and delivery by Chemung Bank, will be duly and validly executed and delivered by Chemung Bank and will constitute a valid and binding obligation of Chemung Bank, enforceable against Chemung Bank in accordance with its terms, except as enforcement may be limited by general principles of equity and by bankruptcy, insolvency and similar Laws affecting creditors' rights and remedies generally.

(c) Neither the execution and delivery of this Agreement by CFC or the Bank Merger Agreement by Chemung Bank, nor the consummation by CFC or Chemung Bank, as the case may be, of the transactions contemplated hereby or thereby, nor compliance by CFC or Chemung Bank with any of the terms or provisions hereof or thereof, will: (i) violate any provision of the certificate of incorporation or by-laws of CFC; or (ii) violate any Laws applicable to CFC or any of its properties or assets; or (iii) violate, conflict with, or result in a breach of, any provision of or the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any Lien upon, any of the properties or assets of CFC under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which CFC is a party, or by which it or any of its properties or assets may be bound or affected.

4.4. Regulatory Filings.

CFC and Chemung Bank have filed all reports required by Laws to be filed with any Regulatory Authority, and such reports were prepared in accordance with the applicable Laws and instructions in existence as of the date of filing of such reports in all material respects, and none of the reports contain any untrue statement of a material fact. CFC is not aware of any reason why any of the required regulatory approvals to be obtained in connection with the Merger or the Bank Merger should not be granted by such Regulatory Authorities or why such regulatory approvals should be conditioned on any requirement which would be a significant impediment to CFC’s ability to carry on its business.

4.5. CFC Information.

The information relating to CFC and Chemung Bank provided herein and to be provided by CFC to be contained in the Joint Proxy Statement-Prospectus, does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein or therein, in light of the circumstances in which they are made, not misleading. The Joint Proxy Statement-Prospectus (except for the portions thereof relating solely to FOFC and Capital Bank, as to which CFC makes no representation or warranty) will comply in all material respects with the provisions of applicable Laws.

4.6. Consents.

Except for consents and approvals of, or filings with, Regulatory Authorities, no consents or approvals of, or filings or registrations with, any Governmental Entity are necessary in connection with the execution and delivery of this Agreement by CFC or the consummation of the transactions contemplated by this Agreement.

4.7. Compliance with Applicable Laws.

Except as set forth in Section 4.7 of the CFC Disclosure Schedule, each of CFC and Chemung Bank has complied in all material respects with all Laws applicable to it or to the operation of its business. Neither CFC nor Chemung Bank has received any notice of any material alleged or threatened claim, violation, or liability under any such Laws that have not heretofore been substantially cured and for which there is no remaining material liability.

4.8. Legal Proceedings.

Except as set forth in Section 4.8 of the CFC Disclosure Schedule: (i) neither CFC nor Chemung Bank is a party to any, and there are no pending, or to the Knowledge of CFC, threatened, legal, administrative, arbitration or other proceedings, claims, actions or governmental or regulatory investigations of any nature against CFC or Chemung Bank in which, to the Knowledge of CFC, there is a reasonable probability of any material recovery against or other

Material Adverse Effect upon CFC or Chemung Bank or which challenge the validity or propriety of the transactions contemplated by this Agreement or the Bank Merger Agreement; and (ii) there is no injunction, order, judgment, decree, or regulatory restriction imposed upon CFC, Chemung Bank or their respective assets.

4.9. Tax Treatment.

As of the date of this Agreement, CFC knows of no reason relating to it which would reasonably cause it to believe that the Merger will not qualify as a reorganization under Section 368(a) of the Code.

4.10. Merger Consideration; Adequate Resources.

CFC will have, at the Effective Time, unissued shares of CFC Common Stock and shares of Common Stock held in its treasury, that are not reserved for any other purpose, sufficient to issue the number of shares of CFC Common Stock contemplated by Article II, and a sufficient amount of cash to pay the amount contemplated by Article II.

4.11. Financial Statements; Books and Records.

CFC has delivered to FOFC the CFC Regulatory Reports and the CFC Financials, all of which fairly present in all material respects, the consolidated financial position of CFC and Chemung Bank as of the dates indicated and the consolidated results of operations, changes in shareholders' equity and, in the case of the audited financial statements, cash flows of CFC and Chemung Bank for the periods then ended and each such financial statement has been or will be, as the case may be, prepared in conformity with GAAP, as applicable, applied on a consistent basis. The CFC Financials, reflecting information after the date of this Agreement will fairly present in all material respects, the consolidated financial position of CFC and Chemung Bank as of the dates indicated and the consolidated results of operations, changes in shareholders' equity and, in the case of the audited financial statements, cash flows of CFC and Chemung Bank for the periods then ended and each such financial statement has been or will be, as the case may be, prepared in conformity with GAAP as applicable, applied on a consistent basis. The books and records of CFC and Chemung Bank fairly reflect in all material respects the transactions to which it is a party or by which its properties are subject or bound. Such books and records have been properly kept and maintained and are in compliance with all applicable Laws and accounting requirements in all material respects. The minute books of CFC and Chemung Bank contain records which are accurate in all material respects regarding all corporate actions of each of their respective shareholders and boards of directors (including committees of their respective boards of directors) set forth therein.

4.12. Undisclosed Liabilities.

Neither CFC nor Chemung Bank has any liability (contingent or otherwise), excluding contractually assumed contingencies of the nature required to be disclosed in a balance sheet (including the notes thereto) prepared in accordance with GAAP, except: (i) as disclosed in the CFC Regulatory Reports, CFC Financial Statements or as provided to FOFC in connection with its due diligence inquiry; (ii) for liabilities incurred in the ordinary course of business subsequent to the date hereof consistent with past practice that, either alone or when combined with all similar liabilities, have not had, and would not reasonably be expected to have, a Material Adverse Effect on CFC; and (iii) for liabilities incurred in connection with this Agreement and the transactions contemplated hereby; or (iv) as set forth in Section 4.12 of the CFC Disclosure Schedule.

4.13. Reserves.

To the Knowledge of CFC, all reserves or other allowances for possible losses reflected in the CFC Financials comply in all material respects with all Laws and are adequate under GAAP. Neither CFC nor Chemung Bank has been notified by any Regulatory Authority or CFC's independent auditor, in writing or otherwise, that such reserves are inadequate or that the practices and policies of CFC or Chemung Bank in establishing such reserves and in accounting for delinquent and classified assets generally fail to comply with applicable accounting or regulatory requirements, or that any Regulatory Authority or CFC's independent auditor believes such reserves to be inadequate or inconsistent with the historical loss experience of CFC or Chemung Bank. CFC has previously furnished to FOFC a complete list

of all extensions of credit and OREO that have been classified by any Regulatory Authority as other loans specially mentioned, , substandard, doubtful, loss, classified or criticized, credit risk assets, concerned loans or words of similar import. CFC agrees to update such list no less frequently than monthly after the date of this Agreement until the earlier of the Closing Date or the date that this Agreement is terminated in accordance with Article VI. All OREO held by CFC or Chemung Bank is being carried net of reserves at the lower of cost or net realizable value.

4.14. Loans.

(a) To CFC's Knowledge, all loans owned by CFC or Chemung Bank, or in which CFC or Chemung Bank has an interest: (i) comply in all material respects with all Laws, including, but not limited to, applicable usury statutes, fair lending laws and regulations, the Truth in Lending Act, the Equal Credit Opportunity Act, and the Real Estate Settlement Procedures Act, and other applicable consumer protection Laws thereunder; and (ii) have been made or acquired in accordance with board of director-approved loan policies and all of such loans are presently collectable, except to the extent reserves have been made against such loans in the CFC Financials.

(b) To CFC's Knowledge, each of CFC and Chemung Bank holds mortgages contained in its loan portfolio for its own benefit to the extent of its interest shown therein; such mortgages evidence Liens having the priority indicated by the terms of such mortgages, including the associated loan documents, subject, as of the date of recordation or filing of applicable security instruments, only to such exceptions as are discussed in attorneys' opinions regarding title or in title insurance policies in the mortgage files relating to the loans secured by real property or are not material as to the collectability of such loans; and all loans owned by CFC and Chemung Bank are with full recourse to the borrowers (except as set forth at Section 4.14(b) of the CFC Disclosure Schedule), and each of CFC and Chemung Bank has taken no action which would result in a waiver or negation of any rights or remedies available against the borrower or guarantor, if any, on any loan. All applicable remedies against all borrowers and guarantors are enforceable except as may be limited by bankruptcy, insolvency, moratorium or other similar Laws affecting creditors' rights and except as may be limited by the exercise of judicial discretion in applying principles of equity. Except as set forth at Section 4.14(b) of the CFC Disclosure Schedule, all loans purchased or originated by CFC or Chemung Bank and subsequently sold have been sold without recourse to CFC or Chemung Bank and without any liability under any yield maintenance or similar obligation. True, correct and complete copies of loan delinquency reports as of August 31, 2010, prepared by CFC and Chemung Bank, which reports include all loans delinquent or otherwise in default, have been furnished to FOFC. True, correct and complete copies of the currently effective lending policies and practices of CFC and Chemung Bank also have been furnished to FOFC.

(c) Except as set forth at Section 4.14(c) of the CFC Disclosure Schedule, to CFC's Knowledge each outstanding loan participation sold by CFC or Chemung Bank was sold with the risk of non-payment of all or any portion of that underlying loan to be shared by each participant proportionately to the share of such loan represented by such participation without any recourse of such other lender or participant to CFC or Chemung Bank for payment or repurchase in excess thereof. CFC and Chemung Bank have properly fulfilled in all material respects the contractual responsibilities and duties in any loan in which it acts as the lead lender or servicer and has complied in all material respects with its duties as required under applicable Laws.

(d) CFC and Chemung Bank have properly perfected all security interests, Liens, or other interests in any collateral securing any loans made by them.

(e) Section 4.14(e) of the CFC Disclosure Schedule sets forth a list of all loans or other extensions credit to all directors, officers and employees, or any other Person covered by FRB Regulation O. All such loans: (i) were made in the ordinary course of business; (ii) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other Persons; and (iii) did not involve more than the normal risk of collectability or present other unfavorable features. No such loan is presently in default.

4.15. Investment Securities.

(a) Except for restrictions that exist for securities that are classified as "held to maturity," pledges to secure public deposits and securities pledged under repurchase agreements, none of the investment securities held by CFC is subject to any restriction (contractual or statutory) that would materially impair the ability of the entity holding such

investment freely to dispose of such investment at any time.

(b) Except as set forth at Section 4.15(b) of the CFC Disclosure Schedule, CFC is not a party to and has not agreed to enter into an exchange-traded or over-the-counter equity, interest rate, foreign exchange or other swap, forward, future, option, cap, floor or collar or any other contract that is a derivative contract (including various combinations thereof) or owns securities that: (i) are referred to generically as "structured notes," "high risk mortgage derivatives," "capped floating rate notes" or "capped floating rate mortgage derivatives" or (ii) are likely to have changes in value as a result of interest or exchange rate changes that significantly exceed normal changes in value attributable to interest or exchange rate changes.

4.16. Environmental Matters.

(a) Each of CFC and Chemung Bank is in material compliance with all applicable Laws relating to pollution or protection of the environment (including without limitation, Laws relating to emissions, discharges, releases and threatened releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials).

(b) There is no suit, claim, action, proceeding, investigation or notice pending or, to the Knowledge of CFC and Chemung Bank, threatened (or past or present actions or events that could form the basis of any such suit, claim, action, proceeding, investigation or notice), in which CFC or Chemung Bank has been or, with respect to threatened suits, claims, actions, proceedings, investigations or notices, may be, named as a defendant: (x) for alleged material noncompliance (including by any predecessor), with any environmental Law; or (y) relating to any material release or threatened release into the environment of any Hazardous Material, occurring at or on a site owned, leased or operated by CFC or Chemung Bank, or to the Knowledge of CFC, relating to any material release or threatened release into the environment of any Hazardous Material, occurring at or on a site not owned, leased or operated by CFC or Chemung Bank.

(c) During CFC's or Chemung Bank's ownership or operation of any of their properties, there has not been any material release of Hazardous Materials in, on, under or affecting any such property.

(d) To the Knowledge of CFC and Chemung Bank, neither of them has made or participated in any loan to any Person who is subject to any suit, claim, action, proceeding, investigation or notice, pending or threatened, with respect to: (i) any alleged material noncompliance as to any property securing such loan with any environmental Law; or (ii) the release or the threatened release into the environment of any Hazardous Material at a site owned, leased or operated by such Person on any property securing such loan.

4.17. Absence of Certain Changes or Events.

Except for entering into this Agreement and as set forth in CFC Disclosure Schedule 4.17 (in each case, identified by the appropriate paragraph of this Section 4.17), since December 31, 2009:

(a) CFC and Chemung Bank have conducted their respective businesses only in the ordinary and usual course of such businesses consistent with their past practices;

(b) there has not been any event or occurrence that has had, or is reasonably expected to have, a Material Adverse Effect on CFC or Chemung Bank;

(c) there has been no change in any accounting principles, practices or methods of CFC or Chemung Bank other than as required by GAAP;

(d) except for supplies or equipment purchased in the ordinary course of business, neither CFC nor Chemung Bank has made any capital expenditures exceeding individually or in the aggregate $50,000; and

(e) there has not been any write-down or specific reserve established by Chemung Bank in excess of $250,000 with respect to any of its loans or OREO.

4.18. Bank Secrecy Act and CRA Compliance.

(a) Except as set forth in Section 4.18 of the CFC Disclosure Schedule, CFC is not aware of, has not been advised of, and has no reason to believe in, the existence of any facts or circumstances which would cause it or Chemung Bank to be deemed to be: (i) operating in violation of the Bank Secrecy Act or the Patriot Act and the regulations promulgated thereunder, the regulations promulgated and administered by OFAC, any order issued with respect to anti-money laundering by the DOJ or FinCEN, any order issued by OFAC, or any other applicable anti-money laundering Laws; or (ii) not in satisfactory compliance with the applicable privacy and customer information requirements contained in any privacy, data protection or security breach notification Laws, including, without limitation, the GLBA and the provisions of the information security program adopted pursuant to 12 CFR. Part 40. CFC is not aware of any facts or circumstances which would cause it to believe that any non-public customer information has been disclosed to or accessed by an unauthorized third Person in a manner which would cause it or Chemung Bank to undertake any remedial action. CFC or Chemung Bank has adopted and implemented an anti-money laundering program that contains adequate and appropriate customer identification and verification procedures that comply with all applicable Laws.

(b) Chemung Bank has received a rating of "Outstanding" in its most recent examination or interim review with respect to the CRA. CFC is not aware of, has not been advised of, and has no reason to believe that any facts or circumstances exist that would cause Chemung Bank: (i) to be deemed not to be in satisfactory compliance in any material respect with the CRA, and the regulations promulgated thereunder; or to be assigned a CRA rating of lower than "satisfactory" by any Regulatory Authority.

4.19. Tax Treatment of the Merger.

CFC has no Knowledge of any fact or circumstance relating to it that would prevent the transactions contemplated by this Agreement from qualifying as a reorganization under Section 368 of the Code with respect to the portion of the Merger Consideration consisting of shares of CFC Common Stock, such that the exchange of CFC Common Stock for FOFC Common Stock and cash will not give rise to a Tax recognition event for the shareholders of FOFC with respect to such portion of the merger consideration comprised of CFC Common Stock.

Article V
Covenants of the Parties

5.1. Conduct of FOFC Business.

From the date of this Agreement to the Effective Time, FOFC will conduct its business and engage in transactions, including extensions of credit, only in the ordinary course and consistent with past practice and policies, except as otherwise required by this Agreement or with the written consent of CFC. FOFC will use commercially reasonable efforts, and will cause Capital Bank to use commercially reasonable efforts to: (i) preserve its business; (ii) maintain good relationships with employees; and (iii) preserve for itself the good will of vendors, depositors, borrowers and other customers of FOFC and Capital Bank with whom business relationships exist. From the date hereof to the Effective Time, except as otherwise consented to or approved by CFC in writing or as permitted or required by this Agreement or applicable Laws, FOFC will not, and will cause Capital Bank to not :

(a) change any provision of its certificate of incorporation or by-laws;

(b) change the number of authorized or issued shares of FOFC Common Stock or preferred stock or issue or grant any option, warrant, call, commitment, subscription, right or agreement of any character relating to its authorized or issued capital stock or any securities convertible into shares of such stock, or split, combine or reclassify any shares of capital stock, or declare, set aside or pay any dividend or other distribution in respect of capital stock, or redeem or otherwise acquire any shares of FOFC Common Stock;

(c) grant any severance or termination pay (other than pursuant to policies, written agreements or practices of FOFC in effect on the date hereof and provided to CFC prior to the date hereof) to, or enter into or amend any employment agreement with, or increase the compensation of, any employee, officer or director of FOFC, except for routine periodic increases, individually and in the aggregate, in accordance with past practice or hire any employee other than the hiring of at-will employees at an annual rate of salary not to exceed $50,000 to fill vacancies that may arise from time to time in the ordinary course of business;

(d) merge or consolidate FOFC or Capital Bank with any other corporation or depository institution, sell or lease all or any substantial portion of the assets or business of FOFC or Capital Bank, make any acquisition of all or any substantial portion of the business or assets of another Person other than in connection with the collection of any loan or credit arrangement between Capital Bank and any other parties, enter into a purchase and assumption transaction with respect to deposits and liabilities; or file an application for a certificate of authority to establish a new branch office;

(e) sell, gift, transfer, hypothecate, pledge, encumber or otherwise dispose of the FOFC Common Stock or preferred stock or the common stock of Capital Bank or any asset, property or business of FOFC or Capital Bank (other than in connection with deposits, repurchase agreements, FOFC acceptances, “treasury tax and loan” accounts established in the ordinary course of business and transactions in “federal funds”) other than in the ordinary course of business consistent with past practice, or modify in any material way the manner in which FOFC or Capital Bank has heretofore conducted its business or enter into any new line of business, incur or guaranty any indebtedness for borrowed money except in the ordinary course of business consistent with past practice;

(f) take any action which would result in any of the representations and warranties of FOFC set forth in this Agreement becoming untrue as of any date after the date hereof or in any of the conditions set forth in Article VII hereof not being satisfied;

(g) waive, release, grant or transfer any rights of value or modify or change in any material respect any existing agreement to which FOFC or Capital Bank is a party, other than in the ordinary course of business, consistent with past practice;

(h) implement any pension, retirement, profit sharing, bonus, welfare benefit or similar plan or arrangement that was not in effect on the date of this Agreement, or amend any existing plan or arrangement except to the extent such amendments do not result in an increase in cost or as are required under applicable Law

(i) compromise, extend or restructure any loan with an unpaid principal balance exceeding $250,000 without CFC’s consent, provided however that with respect to such compromise, extension or restructure, CFC shall inform FOFC of its consent or objection within five (5) business days after FOFC’s request for such consent. Failure of CFC to respond to such request within such time shall be deemed the granting of CFC consent;

(j) sell, exchange or otherwise dispose of any investment securities prior to scheduled maturity or loans that are held for sale;

(k) purchase any security for its investment portfolio not rated “A” or higher by either Standard & Poor’s Corporation or Moody’s Investor Services, Inc.;

(l) except consistent with past practice, make any loan or other credit facility commitment (including without limitation, lines of credit and letters of credit) to any Affiliate, or compromise, extend, renew or modify any such commitment outstanding;

(m) except consistent with past practice, enter into, renew, extend or modify any other transaction with any Affiliate;

(n) enter into any interest rate swap or similar commitment, derivative security, collateralized debt obligation or any other commitment, agreement or arrangement which is not consistent with past practice and which increases FOFC’s or Capital Bank’s credit or interest rate risk over the levels existing at the date hereof;

(o) change its accounting method, practice or principles of accounting except as may be required by GAAP or by a Regulatory Authority;

(p) except for accepting deposits and selling certificates of deposit in the ordinary course of business, enter into any contract for an amount in excess of $25,000;

(q) make any capital expenditure in excess of $25,000;

(r) enter into any new line of business;

(s) take any action that is intended or may reasonably be expected to result in any of its representations and warranties set forth in this Agreement being or becoming untrue or materially misleading or in any of the conditions to the Merger not being satisfied, or in a violation of any provision of this Agreement or the Bank Merger Agreement, except, in every case, as may be required by applicable Laws; or

(t) agree to do any of the foregoing.

5.2. Access; Confidentiality.

(a) From the date of this Agreement through the Effective Time, FOFC and CFC shall afford the other and its accountants, counsel and other authorized agents and representatives, complete access to its and Capital Bank’s and Chemung Bank’s properties, assets, books and records and personnel, at reasonable hours and after reasonable notice, and the officers of FOFC and CFC respectively, will furnish any party making such investigation with such financial and operating data and other information with respect to the businesses, properties, assets, books and records and personnel as the party making such investigation shall from time to time reasonably request. CFC and FOFC shall conduct such investigations and discussions hereunder in a manner so as not to interfere unreasonably with normal operations and customer and employee relationships.

(b) CFC shall receive notice of all meetings of the FOFC and Capital Bank board of directors and any committees thereof. FOFC and Capital Bank shall promptly furnish to CFC true copies of the minutes of all such meetings except for the portion of the minutes which shall relate to the Merger or a Superior Competing Proposal. CFC will hold all such information in confidence to the extent required by, and in accordance with, the provisions of the Confidentiality Agreement.

(c) If this Agreement is terminated, CFC and FOFC, upon the written request of the other party within thirty (30) days after such termination, will destroy or return all documents and records obtained from the other or their respective representatives during the course of any investigation and will cause all information with respect to FOFC or CFC obtained pursuant to this Agreement or preliminarily thereto to be kept confidential, except to the extent such information becomes public through no fault of the party which has obtained such information or any of its respective representatives or agents and except to the extent disclosure of any such information is legally required. CFC and FOFC shall give prompt notice to the other of any contemplated disclosure where such disclosure is so legally required.

5.3. Further Actions of FOFC and CFC.

(a) CFC and FOFC will prepare all applications and notices and make all filings for and use their best commercially reasonable efforts to obtain as promptly as practicable after the date hereof, all necessary permits consents, approvals, waivers and authorizations of all Regulatory Authorities necessary or advisable to consummate the transactions contemplated by this Agreement.

(b) FOFC and CFC will furnish the other with all information concerning it as may be necessary or advisable in connection with any application, notice or other filing made by or on behalf of the requesting party to any Regulatory Authority in connection with the transactions contemplated by this Agreement.

(c) Prior to the filing thereof, FOFC and CFC will furnish to the other and afford the other a reasonable opportunity to examine and comment thereon, a true and complete copy of all applications, notices and other filings with Regulatory Authorities concerning the Merger, the Bank Merger and this Agreement.

(d) Except for those items deemed confidential by Regulatory Authorities, CFC and FOFC will promptly furnish to each other copies of written communications to or received from any Regulatory Authority in respect of the transactions contemplated hereby. If FOFC, Capital Bank, CFC or Chemung Bank believe that a document or information is confidential under applicable Laws, and such document or information would be otherwise disclosable under this Section 5.2(d), the party possessing such document or information shall promptly and in good faith seek approval or non-objection to such disclosure from the appropriate Regulatory Authority.

(e) FOFC and CFC shall deliver to the other as soon as practicable after the end of each month and each fiscal quarter prior to the Effective Time, commencing with the month ended September 30, 2010, an unaudited consolidated balance sheet as of such date and related unaudited consolidated statements of income for the period then ended, which financial statements shall be prepared in accordance with GAAP, consistently applied and shall fairly reflect its consolidated financial condition and consolidated results of operations for the periods then ended, which financial statements may be included respectively in the FOFC and CFC Regulatory Reports delivered pursuant hereto.

(f) CFC and FOFC shall each approve the Bank Plan of Merger as sole shareholder of its Subsidiary bank and obtain the approval of, and cause the execution and delivery of, the Bank Plan of Merger, and any amendment thereof requested by CFC, in its discretion, to comply with regulatory requirements, by its Subsidiary bank.

(g) From the date of this Agreement through the Effective Time, FOFC and CFC each shall: i) maintain insurance in such amounts as are reasonable to cover such risks as are customary in relation to the character and location of its properties and the nature of its business; ii) maintain, books of account and records in accordance with past practice and those principles used in preparing the financial statements heretofore delivered; and iii) file all federal, state, and local tax returns required to be filed by them and pay all Taxes shown to be due on such returns on or before the date such payment is due.

(h) CFC and FOFC shall meet on a regular basis to discuss and plan for the conversion of FOFC and Capital Bank's data processing and related electronic informational systems to those used by CFC and Chemung Bank, which planning shall include, but not be limited to, discussion of the possible termination by FOFC of third-party service provider arrangements effective at the Closing Date or at a date thereafter, non-renewal of personal property leases and software licenses used by FOFC or Capital Bank in connection with its systems operations, retention of outside consultants and additional employees to assist with the conversion.

(i) CFC shall file current reports on Form 8-k as required under the Exchange Act in connection with this Agreement, the Merger and the transactions contemplated hereby.

5.4. Subsequent Events.

Until the Effective Time, each party will immediately advise the other party of any fact or occurrence, or any pending or threatened occurrence of which it obtains knowledge and which (if existing and known at the date of the execution of this Agreement) would have been required to be set forth or disclosed in or pursuant to this Agreement, which (if existing and known at any time prior to or at the Effective Time) would make the performance by a party of a covenant contained in this Agreement impossible or make such performance materially more difficult than in the absence of such fact or occurrence, or which (if existing and known at the time of the Effective Time) would cause a condition to a party's obligation under this Agreement not to be fully satisfied.

5.5. Employee Matters.

(a) Subject to a pre-Closing evaluation of personnel records, CFC and Chemung Bank shall offer to retain all of Capital Bank's branch employees, and John Kite and Robert Luther. Other FOFC and Capital Bank employees whose positions might be eliminated or whose responsibilities might be materially changed as a result of the Merger will be considered for open positions within CFC and Chemung Bank as set forth in this Section 5.5. Following the execution of this Agreement, CFC shall notify the President of FOFC or his designee of employment opportunities that become available at CFC or Chemung Bank. Within five (5) business days of such notice, FOFC shall notify the CFC Director of Human Resources of individuals who have an interest in applying for the open position(s). These individuals will be given first opportunity to fill the open position(s), provided they qualify for the position(s). In the event that CFC does not receive notification within the five (5) business days, or determines that the applicant is not qualified, it will offer the open position(s) to other candidates. In the event that a FOFC employee is selected for the open position, FOFC and CFC shall mutually agree on a date the employee will assume his/her new job duties.

(b) CFC will pay to Capital Bank employees who are not parties to employment, severance, change of control or like agreements and whose employment is terminated other than for cause within six (6) months of the Closing Date, a cash severance benefit equal to two (2) weeks of salary for each year of service, with a minimum benefit equal to three (3) months salary. CFC and Chemung Bank intend to honor all of FOFC's and Capital Bank's existing employment,

severance, change of control and like agreements such as directors' deferred compensation plans, SERPs and split dollar insurance policies. Notwithstanding anything contained therein or in this Agreement, no payment shall be made under any employment, retention bonus, deferred compensation, change of control and severance contract or plan that would constitute a "parachute payment" (as such term is defined in Section 280G of the Code) or that would be prohibited by any Regulatory Authority to which FOFC or Capital Bank is subject.

(c) After the Effective Time, employees of FOFC and Capital Bank who become employed by CFC or Chemung Bank will be eligible for employee benefits that CFC or Chemung Bank, as the case may be, provides to its employees generally and, except as otherwise required by this Agreement, on substantially the same basis as is applicable to such employees, provided that nothing in this Agreement shall require any duplication of benefits. CFC or Chemung Bank will: (i) give credit to employees of FOFC and Capital Bank with respect to the satisfaction of the limitations as to pre-existing condition exclusions, evidence of insurability requirements and waiting periods for participation and coverage that are applicable under the employee welfare benefit plans (within the meaning of Section 3(1) of ERISA) of CFC or Chemung Bank, equal to the credit that any such employee had received as of the Effective Time towards the satisfaction of any such limitations and waiting periods under the comparable employee welfare benefit plans of FOFC and Capital Bank and to waive preexisting condition limitations to the same extent waived under the corresponding plan; and (ii) CFC or Chemung Bank will treat, and cause its applicable benefit plans to treat, the service of the FOFC employees with FOFC or Capital Bank as service rendered to CFC or Chemung Bank, as applicable: (i) for purposes of eligibility to participate and vesting, but not for benefit accrual under any defined benefit plan (including minimum pension amount) attributable to any period before the Effective Time; and (ii) for vacation and sick leave benefits. Benefits under CFC pension plans, if any, shall be determined solely with reference to service with CFC.

5.6. Resignation.

FOFC shall obtain and deliver to CFC at the Closing, evidence reasonably satisfactory to CFC of the resignation, effective as of the Effective Time, of the directors of FOFC and Capital Bank.

5.7. Publicity.

Except as otherwise required by applicable Laws, so long as this Agreement is in effect, neither FOFC nor CFC shall issue or cause the publication of any press release or other public announcement with respect to, or otherwise make any public statement concerning, the transactions contemplated by this Agreement or the transactions contemplated hereby, without the consent of the other party, which consent shall not be unreasonably withheld. FOFC and CFC shall cooperate to prepare a joint press release announcing the signing of this Agreement and the transactions contemplated hereunder.

5.8. Section 16 Matters.

Prior to the Effective Time, CFC shall take all such steps as may be required to cause any acquisitions of CFC Common Stock resulting from the transactions contemplated by this Agreement by each director or officer of FOFC who becomes subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to CFC to be exempt under Rule 16b-3 promulgated under the Exchange Act. FOFC agrees to promptly furnish CFC with all requisite information necessary for CFC to take the actions contemplated by this Section 5.8.

5.9. Indemnification.

(a) From and after the Effective Time through the sixth anniversary of the Effective Time, CFC agrees to indemnify and hold harmless each present and former director and officer of FOFC and Capital Bank and each officer or employee of FOFC and Capital Bank that is serving or has served as a director or officer of another entity expressly at FOFC's or Capital Bank's request or direction (each, an "Indemnified Party"), against any costs or expenses (including reasonable attorneys' fees), judgments, fines, amounts paid in settlement, losses, claims, damages or liabilities incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of matters existing or occurring at or prior to the Effective Time (including the transactions contemplated by this Agreement), whether asserted or claimed prior to, at or after the Effective Time, as they are from

time to time incurred, in each case to the fullest extent such Person would have been indemnified or have the right to advancement of expenses pursuant to FOFC's certificate of incorporation and bylaws as in effect on the date of this Agreement and to the fullest extent permitted by law.

Any Indemnified Party wishing to claim indemnification under this Section 5.9, upon learning of any such claim, action, suit, proceeding or investigation, shall promptly notify CFC thereof, but the failure to so notify shall not relieve CFC of any liability it may have hereunder to such Indemnified Party if such failure does not materially and substantially prejudice CFC. CFC shall use its reasonable best efforts to maintain FOFC's existing directors' and officers' liability insurance policy or provide a policy providing comparable coverage and amounts to the Persons currently covered by FOFC's existing policy for a period of 6 years after the Effective Time; provided, however, that in no event shall CFC be obligated to expend, in order to maintain or provide such insurance coverage an amount in the aggregate in excess of 150% of the amount of the annual premiums paid by FOFC as of the date hereof for such insurance ("Maximum Insurance Amount"); provided further, that if the amount of the premiums necessary to maintain or procure such insurance coverage exceeds the Maximum Insurance Amount, CFC shall obtain the most advantageous coverage obtainable for a premium equal to the Maximum Insurance Amount.

(b) In the event CFC or any of its successors or assigns: (i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger; or (ii) transfers or conveys all or substantially all of its properties and assets to any Person, then, and in each such case, to the extent necessary, proper provision shall be made so that the successors and assigns of CFC assume the obligations set forth in this Section 5.9.

5.10. Exclusivity/Competing Proposals.

(a) FOFC shall not, and shall not permit any Affiliate of FOFC or any officer, director or employee of any of them, or any investment banker, attorney, accountant or other representative retained by FOFC or any FOFC Affiliate to, directly or indirectly, solicit, encourage, or initiate discussions or negotiations with, or respond to requests for information, inquiries, or other communications from, any Person other than CFC concerning the fact of, or the terms and conditions of, this Agreement, or concerning any acquisition of FOFC or Capital Bank or any assets or business thereof (except that FOFC officers and directors may respond to inquiries from analysts, Regulatory Authorities and holders of FOFC Common Stock in the ordinary course of business); and FOFC shall notify CFC immediately if any such discussions or negotiations are sought to be initiated with FOFC by any Person other than CFC or if any such requests for information, inquiries, proposals or communications are received from any Person other than CFC. If, and only to the extent that: (i) the FOFC board of directors reasonably determines in good faith, after consultation with its outside counsel, that such action would be required in order for the directors of FOFC to comply with their respective fiduciary duties under applicable Laws in response to a bona fide, written Acquisition Proposal not solicited in violation of this Section 5.10 that the FOFC Board believes is a Superior Competing Proposal; and (ii) FOFC provides notice to CFC of its decision to take such action in accordance with the requirements of Section 5.10(b), FOFC may: (a) furnish information with respect to FOFC to any Person making such Acquisition Proposal pursuant to a customary confidentiality agreement (as determined by FOFC after consultation with its outside counsel) on terms substantially similar to the terms contained in the Confidentiality Agreement; (b) participate in discussions or negotiations regarding an Acquisition Proposal; and (c) authorize any statement or recommendation in support of such an Acquisition Proposal; and (d) withhold, withdraw, amend or modify the recommendation for FOFC shareholder approval of the Merger and the Bank Merger. No Acquisition Proposal shall be considered a Superior Competing Proposal unless, during the three (3) day period following FOFC's notification to CFC of the Superior Competing Proposal, FOFC and its advisors shall have negotiated in good faith with CFC to make adjustments in the terms and conditions of this Agreement such that the Acquisition Proposal would no longer constitute a Superior Competing Proposal, and such negotiations fail to result in the necessary adjustments to this Agreement

(b) FOFC shall notify CFC promptly (but in no event later than 24 hours) after receipt of any Acquisition Proposal, or any material modification of or material amendment to any Acquisition Proposal, or any request for nonpublic information relating to FOFC or for access to the properties, books, or records of FOFC by any Person that informs the FOFC board of directors or a member of senior management of FOFC that it is considering making, or has made,

an Acquisition Proposal. Such notice to CFC shall be made orally and in writing, and shall indicate the identity of the Person making the Acquisition Proposal or intending to make or considering making an Acquisition Proposal or requesting non-public information or access to the books and records of FOFC, and the material terms of any such Acquisition Proposal and any modification or amendment to such Acquisition Proposal. FOFC shall keep CFC fully informed, on a current basis, of any material changes in the status and any material changes or modifications in the terms of any such Acquisition Proposal, indication or request. FOFC also shall promptly, and in any event within twenty-four (24) hours, notify CFC, orally and in writing, if it enters into discussions or negotiations concerning any Acquisition Proposal in accordance with Section 5.10(a).

5.11. Registration of CFC Common Stock.

(a) As promptly as reasonably practicable following the date hereof, CFC shall prepare and file with the SEC a registration statement on Form S-4 with respect to the issuance of CFC Common Stock in the Merger. FOFC will furnish to CFC the information required to be included in the Registration Statement with respect to its business and affairs and shall have the right to review and consult with CFC and approve the form of, and any characterizations of such information included in, the Registration Statement prior to its being filed with the SEC. CFC shall use reasonable best efforts to have the Registration Statement declared effective by the SEC and to keep the Registration Statement effective as long as is necessary to consummate the Merger and the transactions contemplated hereby. CFC and FOFC will each use reasonable best efforts to cause the Joint Proxy Statement-Prospectus to be mailed to the shareholders of CFC and FOFC as promptly as practicable after the Registration Statement is declared effective under the Securities Act. CFC will advise FOFC, promptly after it receives notice thereof, of the time when the Registration Statement has become effective, the issuance of any stop order, the suspension of the qualification of the CFC Common Stock issuable in connection with the Merger for offering or sale in any jurisdiction, or any request by the SEC for amendment of the Joint Proxy Statement-Prospectus or the Registration Statement. If at any time prior to the Effective Time any information relating to CFC or FOFC, or any of their respective Affiliates, officers or directors, should be discovered by CFC or FOFC which should be set forth in an amendment or supplement to any of the Registration Statement or the Joint Proxy Statement-Prospectus so that any of such documents would not include any misstatement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the party which discovers such information shall promptly notify the other party hereto and, to the extent required by Law, an appropriate amendment or supplement describing such information shall be promptly filed by CFC with the SEC and disseminated by FOFC to the shareholders of FOFC.

(b) CFC shall also take any action required to be taken under any applicable state securities Laws in connection with the Merger and each of FOFC and CFC shall furnish all information concerning it and the holders of FOFC Common Stock as may be reasonably requested in connection with any such action.

(c) Prior to the Effective Time, CFC shall notify the OTC Bulletin Board of the additional shares of CFC Common Stock to be issued by CFC in exchange for the shares of FOFC Common Stock.

5.12. Shareholder Meetings.

(a) FOFC will submit to its shareholders this Agreement and any other matters required to be approved or adopted by FOFC shareholders in order to carry out the intentions of this Agreement. In furtherance of that obligation, FOFC will take, in accordance with applicable Law and its certificate of incorporation and bylaws, all action necessary to call, give notice of, convene and hold a meeting of its shareholders (the “FOFC Shareholder Meeting”) as promptly as practicable for the purpose of considering and voting on approval and adoption of this Agreement and the transactions provided for in this Agreement. FOFC’s board of directors will use all reasonable best efforts to obtain from its shareholders a vote approving this Agreement. Except as provided in this Agreement: (i) FOFC’s board of directors shall recommend to its shareholders approval of this Agreement; (ii) the Joint Proxy Statement-Prospectus shall include a statement to the effect that FOFC’s board of directors has recommended that its shareholders vote in favor of the approval of this Agreement; and (iii) neither FOFC’s board of directors nor any committee thereof shall withdraw, amend or modify, or propose or resolve to withdraw, amend or modify, the recommendation of FOFC’s board of directors that its shareholders vote in favor of approval of this Agreement or make any statement in connection with the FOFC Shareholder Meeting inconsistent with such recommendation (collectively, a “FOFC Change in Recommendation”). Notwithstanding the foregoing if: (i) FOFC has complied in all material respects with its obligations under Section 5.10; (ii) FOFC (a) has received an unsolicited bona fide written Acquisition Proposal from a third party that FOFC’s board of directors concludes in good faith constitutes a Superior Competing Proposal after

giving effect to all of the adjustments that may be offered by CFC pursuant to clause (c) below; (b) FOFC has notified CFC, at least five (5) business days in advance, of it is intention to effect a FOFC Change in Recommendation, specifying the material terms and conditions of any such Superior Competing Proposal and furnishing to CFC a copy of the relevant proposed transaction documents, if such exist, with the Person making such Superior Competing Proposal; and (c) during the period of not less than five(5) business days following FOFC's delivery of the notice referred to in clause b above and prior to effecting such FOFC Change in Recommendation, has negotiated, and has used reasonable best efforts to cause its financial and legal advisors to negotiate, with CFC in good faith (to the extent that CFC desires to negotiate) to make such adjustments in the terms and conditions of this Agreement so that such Acquisition Proposal ceases to constitute a Superior Competing Proposal; and (d) FOFC's board of directors, after consultation with and based on the advice of counsel, determines in good faith that it would result in a violation of its fiduciary duties under applicable law to recommend this Agreement, then in submitting the Agreement to shareholders at the FOFC Shareholder Meeting, it may submit the Agreement without recommendation, or following submission of the Agreement to shareholders it may withdraw, amend or modify its recommendation, in which case the board of directors may communicate the basis for its lack of a recommendation, or the withdrawal, amendment or modification of its recommendation, to the shareholders in the Joint Proxy Statement-Prospectus or an appropriate amendment or supplement thereto to the extent required by Law.

(b) CFC will submit to its shareholders this Agreement and any other matters required to be approved or adopted by shareholders in order to carry out the intentions of this Agreement. In furtherance of that obligation, CFC will take, in accordance with applicable Law and its certificate of incorporation and bylaws and Regulation 14A (including Rules 14a and 14b thereunder) under the Exchange Act, all action necessary to call, give notice of, convene and hold a meeting of its shareholders (the "CFC Shareholder Meeting") as promptly as practicable for the purpose of considering and voting on approval and adoption of this Agreement and the transactions provided for in this Agreement. CFC's board of directors will use all reasonable best efforts to obtain from its shareholders a vote approving this Agreement. Except as provided in this Agreement: (i) CFC's board of directors shall recommend to its shareholders approval of this Agreement; (ii) the Joint Proxy Statement-Prospectus shall include a statement to the effect that CFC's board of directors have recommended that its shareholders vote in favor of the approval of this Agreement; and (iii) neither CFC's board of directors nor any committee thereof shall withdraw, amend or modify, or propose or resolve to withdraw, amend or modify, the recommendation of CFC's board of directors that its shareholders vote in favor of approval of this Agreement or make any statement in connection with the CFC Shareholder Meeting inconsistent with such recommendation.

5.13. No Market Manipulation

From the date of this Agreement until the Effective Time or this Agreement terminates: (a) CFC and FOFC and their Affiliates shall not directly or indirectly purchase, or sell, any shares of CFC Common Stock or any security measured by reference to CFC Common Stock, except pursuant to employee or director stock option plans and defined contribution plans established under Section 401(k) of the Code; and (b) CFC and FOFC shall not, directly or indirectly, purchase or sell any security on the Index, or any security measured by reference to any security on the Index.

Article VI
Termination

6.1. Termination.

This Agreement may be terminated on or at any time prior to the Closing Date, whether before or after approval by the shareholders of FOFC and CFC:

(a) by the mutual written consent of the parties; or

(b) by CFC or FOFC if there shall have been any material breach of any obligation of CFC, on the one hand, or FOFC, on the other hand, and such breach cannot be, or shall not have been, remedied within fifteen business (15) days after receipt by such other party of notice in writing specifying the nature of such breach and requesting that it be remedied; or

(c) if the Effective Time shall not have occurred prior to October 31, 2011 (or December 31, 2011 if the reason the Effective Time has not occurred is due to the fact that the parties have not received approval from the Regulatory Authorities)despite prompt and diligent actions by the parties, or any required waiting period shall have not yet expired or been terminated); provided, however, that the right to terminate this Agreement under this Section 6.1(c) shall not be available to a party whose action or failure to act has been a principal cause of or resulted in the failure of the Effective Time to occur on or before such date; or

(d) if either party has been informed in writing by a Regulatory Authority whose approval or consent has been requested that such approval or consent will not be granted, unless such non-approval or non-consent shall be due to the failure of the party seeking to terminate this Agreement to perform or observe its agreements set forth herein

required to be performed or observed by such party on or before the Closing Date; or

(e) by CFC: (i) if FOFC fails to hold the FOFC Shareholder Meeting to vote on the Agreement within the time frame set forth in Section 5.12(a); or (ii) if FOFC's board of directors either (x) fails to recommend, or fails to continue its recommendation, that the shareholders of FOFC vote in favor of the adoption of this Agreement; or (y) modifies, withdraws or changes in any manner adverse to CFC its recommendation that the shareholders of FOFC vote in favor of the adoption of this Agreement; or

(f) by FOFC, at any time prior to the FOFC Shareholders Meeting held to vote on the adoption and approval of the Merger, in order to concurrently enter into an acquisition agreement or similar agreement with respect to a Superior Competing Proposal which has been received by FOFC and the FOFC board of directors in compliance with Section 5.10; or

(g) by FOFC: (i) if CFC fails to hold the CFC Shareholder Meeting to vote on the Agreement within the time frame set forth in Section 5.12(b); or (ii) if CFC's board of directors either: (i) fails to recommend, or fails to continue its recommendation, that the shareholders of CFC vote in favor of the adoption of this Agreement; or (ii) modifies, withdraws or changes in any manner adverse to FOFC its recommendation that the shareholders of CFC vote in favor of the adoption of this Agreement; or

(h) by CFC, pursuant to Section 2.5; or

(i) by FOFC if: i) on the Closing Date, the Closing Price is less than $17.85 per share; and ii) during the period between the public announcement of this Agreement and the Merger and the Closing Date, the per share price of CFC's Common Stock shall have underperformed the Index by 20%. As used in this Section , the term "underperformed" means that the per share price of CFC Common Stock declined by more than an additional 20% over the performance of the Index during such period. For example, if the Index declined 15% during the period, CFC Common Stock must have declined by more than 35% to constitute underperformance.

6.2. Effect of Termination.

If this Agreement is terminated pursuant to Section 6.1, this Agreement shall forthwith become void other than (Sections 5.2(c), 6.3, 8.2, 8.3, 8.4, 8.11, 8.12 and 8.13) and there shall be no further liability on the part of CFC or FOFC to the other, except for any liability of CFC or FOFC under such sections of this Agreement and except for any liability arising out of any uncured breach of any covenant or other agreement contained in this Agreement or any breach of a representation or warranty.

6.3. Termination Fee.

(a) If CFC or FOFC terminates this Agreement under Section 6.1(f), by reason of FOFC having agreed to enter into a Superior Competing Proposal, FOFC shall pay CFC a termination fee in an amount equal to 2.5% of the Merger Consideration, the value of which shall be computed as if the Closing occurred on the date of the termination. Amounts payable under this Section 6.3, shall be paid without setoff, by wire transfer of immediately available funds, to an account specified by CFC, not later than three (3) business days following the adoption by the FOFC board of directors of a resolution approving or adopting a Superior Competing Proposal. FOFC acknowledges that the expense payment and termination fee contained in this Section 6.3 is an integral part of the transactions contemplated hereby and that, without these provisions, CFC would not enter into this Agreement.

(b) The parties agree that the termination fee is fair and reasonable in the circumstances. If a court of competent jurisdiction shall nonetheless, by a final, nonappealable judgment, determine that the amount of any such termination fee exceeds the maximum amount permitted by law, then the amount of such termination fee shall be reduced to the maximum amount permitted by law in the circumstances, as determined by such court of competent jurisdiction.

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Article VII
Conditions

7.1. Conditions to FOFC's Obligations.

The obligations of FOFC hereunder shall be subject to satisfaction at or prior to the Closing Date of each of the following conditions, unless waived by FOFC pursuant to Section 8.6:

(a) All action required to be taken by or on the part of, CFC and Chemung Bank to authorize the execution, delivery and performance of this Agreement and the Bank Plan of Merger, respectively, and the consummation of the transactions contemplated hereby and thereby, shall have been duly and validly taken by CFC and Chemung Bank and FOFC shall have received certified copies of the resolutions evidencing such authorizations;

(b) The obligations of CFC required by this Agreement to be performed by CFC at or prior to the Closing Date shall have been duly performed and complied with in all material respects and the representations and warranties of CFC set forth in this Agreement shall be true and correct in all material respects, as of the date of this Agreement, and as of the Closing Date as though made on and as of the Closing Date, except as to any representation or warranty which: (i) specifically relates to an earlier date; or (ii) where the facts which cause the failure of any representation or warranty to be so true and correct would not, either individually or in the aggregate, constitute a Material Adverse Effect on the assets, business, financial condition or results of operation of CFC and Chemung Bank taken as a whole;

(c) FC and FOFC shall have received all approvals of Regulatory Authorities of the Merger and the Bank Merger; and all notice and waiting periods required under applicable Law shall have expired or been terminated;

(d) There shall not be in effect any order, decree or injunction of a Governmental Entity which enjoins or prohibits consummation of the Merger or the Bank Merger;

(e) CFC shall have delivered to FOFC a certificate, dated the Closing Date and signed, without personal liability, by its president, to the effect that the conditions set forth in subsections (a) through (d) of this Section 7.1 have been satisfied, to the best Knowledge of the president;

(f) FOFC shall have received an opinion of Hinman, Howard & Kattell, LLP, counsel to CFC, dated the Closing Date, in form and substance reasonably satisfactory to FOFC and its counsel;

(g) This Agreement shall have been approved in accordance with applicable Law by the holders of the outstanding shares of FOFC Common Stock entitled to vote thereon; and

(h) CFC shall have provided evidence to FOFC of satisfactory insurance coverage for the directors and officers of FOFC and Capital Bank as required by Section 5.9(a).

7.2. Conditions to CFC's Obligations.

The obligations of CFC hereunder shall be subject to satisfaction at or prior to the Closing Date of each of the following conditions, unless waived by CFC pursuant to Section 8.6:

(a) All action required to be taken by, or on the part of, FOFC and Capital Bank to authorize the execution, delivery and performance of this Agreement and the Bank Plan of Merger, respectively, and the consummation of the transactions contemplated hereby and thereby, shall have been duly and validly taken by FOFC and Capital Bank and CFC shall have received certified copies of the resolutions evidencing such authorizations;

(b) The obligations of FOFC required by this Agreement to be performed by FOFC at or prior to the Closing Date shall have been duly performed and complied with in all material respects and the representations and warranties of FOFC set forth in this Agreement shall be true and correct in all material respects, as of the date of this Agreement, and as of the Closing Date as though made on and as of the Closing Date, except as to any representation or warranty which: (i) specifically relates to an earlier date; or (ii) where the facts which cause the failure of any representation or warranty to be so true and correct would not, either individually or in the aggregate, constitute a Material Adverse Effect on the assets, business, financial condition or results of operation of FOFC and Capital Bank taken as a whole;

(c) CFC and FOFC shall have received all approvals of Regulatory Authorities of the Merger and the Bank Merger; and all notice and waiting periods required under applicable Law shall have expired or been terminated;

(d) There shall not be in effect any order, decree or injunction of a Governmental Entity which enjoins or prohibits consummation of the Merger or the Bank Merger;

(e) FOFC shall have delivered to CFC a certificate, dated the Closing Date and signed, without personal liability, by its president, to the effect that the conditions set forth in subsections (a) through (d) of this Section 7.2 have been satisfied, to the best Knowledge of the president;

(f) CFC shall have received an opinion of Hiscock & Barclay, LLP, counsel to FOFC, dated the Closing Date, in form and substance reasonably satisfactory to CFC and its counsel;

(g) No order, decree, memorandum, restriction, or enforcement proceeding to which FOFC or Capital Bank or any of their Affiliates are subject, which have been issued, administered, supervised or prosecuted by any Regulatory Authority, shall be enforced against CFC or Chemung Bank as successors by merger;

(h) There shall be in full force and effect a valid, enforceable lease for Capital Bank's Wolf Road branch providing for a lease term extending up through and including December 31, 2011 and granting to the tenant two (2) one year renewal options at an annual rent of no more than $114,240.00;

(i) FOFC and Capital Bank on the one hand, and Peter D. Cureau shall have entered into a settlement and release agreement satisfactory to CFC; attached hereto as Exhibit G.

(j) Peter D. Cureau shall have executed the Voting Agreement; and

(k) The shares of CFC Common Stock issued in exchange for shares of FOFC Common Stock shall be approved for quotation on the OTC Bulletin Board.

(l) The Registration Statement shall have become effective under the Securities Act and no stop order suspending the effectiveness of the Registration Statement shall have been issued and be in effect and no proceedings for that purpose shall have been initiated by the SEC and not withdrawn.

(m) CFC shall have received an estoppel certificate, in the form attached hereto as Exhibit H, executed by the landlord for each of Capital Bank's branch offices.

Article VIII
Other Matters

8.1. Closing.

The Closing will take place at 10:00 a.m. at the offices of Hinman, Howard & Kattell, LLP, counsel to CFC, on a date specified by the parties, which shall be no later than three (3) business days after the satisfaction or waiver of all conditions precedent specified under Sections 7.1 and 7.2 (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the fulfillment or waiver of those conditions), or on such other date, place and time as the parties may agree. Alternatively, the parties may agree that the Closing shall occur without their or their counsel's physical presence in the same location, through the transmission and execution of documents and instruments using electronic media, including, but not limited to, e-mail and telefacsimile. Digital signatures produced by such means shall have the same force and effect as handwritten signatures. If the parties elect to use this method for

the Closing, following the Closing, they shall promptly execute handwritten documents and instruments and exchange the signature pages thereof so that each party shall have a complete set(s) of manually signed documents memorializing the Closing.

8.2. Expenses.

Each party hereto shall bear and pay all costs and expenses incurred by it in connection with the transactions contemplated hereby, including fees and expenses of its own financial consultants, accountants and counsel, except that CFC and FOFC each shall bear and pay 50% of all printing and mailing costs and filing fees associated with the Registration Statement and the Joint Proxy Statement-Prospectus and any amendment or supplement thereto.

8.3. Survival of Representations, Warranties and Covenants.

All representations, warranties and covenants in this Agreement or in any instrument delivered pursuant hereto shall expire on, and be terminated and extinguished at, the Effective Time other than covenants that by their terms are to survive or be performed after the Effective Time; provided, that no such representations, warranties or covenants shall be deemed to be terminated or extinguished so as to deprive CFC or FOFC (or any director, officer or controlling Person thereof) of any defense in law or equity which otherwise would be available against the claims of any Person, including, without limitation, any shareholder or former shareholder of either CFC or FOFC, the aforesaid representations, warranties and covenants being material inducements to the consummation by CFC and FOFC of the Transactions.

8.4. Assignment/Limitation of Benefits.

Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto without the prior written consent of the other parties. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns. This Agreement is not intended to confer upon any Person other than the parties hereto any rights or remedies hereunder, and the covenants, undertakings and agreements set out herein shall be solely for the benefit of, and shall be enforceable only by, the parties hereto and their permitted assigns.

8.5. Entire Agreement; No Third Party Beneficiaries.

This Agreement, including the documents and other writings referred to herein or delivered pursuant hereto, contains the entire agreement and understandings of the parties with respect to its subject matter. This Agreement supersedes all prior arrangements and understandings between the parties, both written or oral with respect to its subject matter and is not intended to confer upon any Person other than the parties any rights or remedies hereunder.

8.6. Amendment, Extension and Waiver.

This Agreement may be amended by the parties hereto, by action taken or authorized by their respective boards of directors, at any time before or after approval of the matters presented in connection with the Merger by the parties' shareholders, but, after any such approval, no amendment shall be made which by applicable Law requires further approval by such shareholders without such further approval. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto. At any time prior to the Effective Time, the parties hereto, by action taken or authorized by their respective board of directors, may, to the extent legally allowed: (i) extend the time for the performance of any of the obligations or other acts of the other parties hereto; (ii) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto; and (iii) waive compliance with any of the terms or conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such party, but such waiver or failure to insist on strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

8.7. Notices.

All notices or other communications hereunder shall be in writing and shall be deemed given if delivered personally, mailed by prepaid registered or certified mail (return receipt requested), sent by recognized overnight delivery service guaranteeing next day delivery or sent by e-mail with following confirmation copy by any of the foregoing means, addressed as follows:

If to CFC, to:

Chemung Financial Corporation
One Chemung Canal Plaza
Elmira, New York 14902-1522
Attention: Ronald M. Bentley, President & CEO
Phone: (607) 737-3900
Fax: (607) 735-2050
Email: rbentley@chemungcanal.com

With a copy to:

Hinman, Howard & Kattell, LLP
106 Corporate Park Drive, Suite 317
White Plains, New York 10604
Attention: Clifford S. Weber, Esq.
Phone: (914) 694-4102
Fax: (914) 694-4510
Email: cweber@hhk.com

If to FOFC, to:

Capital Bank & Trust Company
1375 Washington Avenue
Albany, New York 12206
Attention: Eugene M. Sneeringer, Jr., Chairman
Phone: (518) 434-3166
Fax: (518) 434-9997
Email: esneeringer@smprtitle.com

With a copy to:

Hiscock & Barclay, LLP
One Park Place
300 South State Street
Syracuse, New York 13202
Attention: George S. Deptula, Esq.
Phone: (315) 425-2725
Fax: (315) 425-8545
Email: gdeptula@hblaw.com

Notwithstanding the foregoing, if this Agreement requires the prior consent or approval of CFC to an action to be taken by FOFC or Capital Bank, whether or not this Agreement requires such consent or approval to be in writing, such requirement shall be deemed satisfied if the consent or approval is set forth in an e-mail.

8.8. Captions and Headings.

The captions and headings contained in this Agreement are for reference purposes only and are not part of this Agreement.

8.9. Counterparts.

This Agreement may be executed in any number of counterparts and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

8.10. Severability.

If any provision of this Agreement or the application thereof to any Person or circumstance shall be invalid or unenforceable to any extent, the remainder of this Agreement and the application of such provisions to other Persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by Law.

8.11. Governing Law/Jurisdiction/Venue.

This Agreement shall be governed by, and construed in accordance with, the Laws of the State of New York, without regard to choice of law provisions thereof, except to the extent that federal Law applies. Any action arising under or concerning this Agreement shall be commenced in a court of competent jurisdiction in the State of New York, and the parties hereby consent to the jurisdiction of such courts.

8.12. Interpretation.

Each party acknowledges that it has been represented by counsel of its choice in connection with the preparation and negotiation of this Agreement and the transactions contemplated thereby. The parties therefore agree that this Agreement shall not be construed more strictly against or in favor of one party as compared with the other party.

8.13. Waiver of Jury Trial.

Each party irrevocably waives any and all right to trial by jury with respect to any action, claim or other proceeding arising out of or relating to this Agreement or the transactions contemplated thereby.

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Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

CHEMUNG FINANCIAL CORPORATION

By: /s/ Ronald M. Bentley
Ronald M. Bentley
President and Chief Executive Officer

FORT ORANGE FINANCIAL CORP.

By: /s/ Peter D. Cureau
Peter D. Cureau
President and Chief Executive Officer

Appendix A2

First Amendment
to the
Agreement and Plan Of Merger

This First Amendment, dated as of December 28, 2010 (this "Amendment"), amends the Agreement and Plan of Merger, dated as of October 14, 2010 by and between Chemung Financial Corporation, a New York business corporation ("CFC") and Fort Orange Financial Corp., a Delaware business corporation ("FOFC") (the "Agreement").

WHEREAS, Section 8.6 of the Agreement provides, among other things, that the Agreement may be amended by written agreement executed on behalf of the parties; and

WHEREAS, the parties desire to amend the Agreement as set forth in this Amendment.

NOW, THEREFORE, in consideration of the premises, and of the mutual agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Section 2.5 of the Agreement is hereby amended and restated as follows in its entirety:

"The Merger Consideration shall be subject to adjustment as provided in this Section 2.5.

(a) As determined on the Closing Date, if the Closing Price is $25.20 or less and if the FOFC Delinquent Loans at the end of the month immediately preceding the Closing are: (i) less than $6.5 million, the Exchange Ratio shall be 0.3571 and the cash component of the Merger Consideration shall be $7.50; (ii) $6.5 million or greater, but less than $8.5 million, the Exchange Ratio shall be 0.3524 and the cash component of the Merger Consideration shall be $7.40; (iii) $8.5 million or greater, but less than $10.5 million, the Exchange Ratio shall be 0.3476 and the cash component of the Merger Consideration shall be $7.30; or (iv) $10.5 million or greater, CFC may at its election (A) terminate this Agreement pursuant to Section 6.1(h); or (B) proceed with the transaction in which event the Exchange Ratio shall be 0.3429 and the cash component of the Merger Consideration shall be $7.20.

(b) As determined on the Closing Date, if the Closing Price is greater than $25.20 and if the FOFC Delinquent Loans at the end of the month immediately preceding the Closing are: (i) less than $6.5 million, the Exchange Ratio shall be 100% of the Exchange Ratio as adjusted pursuant to paragraph (b) of the definition of Exchange Ratio in Article I of this Agreement (the "Adjusted Exchange Ratio") and the cash component of the Merger consideration shall be $7.50; (ii) $6.5 million or greater, but less than $8.5 million, the Exchange Ratio shall be 98.67% of the Adjusted Exchange Ratio and the cash component of the Merger Consideration shall be $7.40; (iii) $8.5 million or greater, but less than $10.5 million, the Exchange Ratio shall be 97.34% of the Adjusted Exchange Ratio and the cash component of the Merger Consideration shall be $7.30; or (iv) $10.5 million or greater, CFC may at its election (A) terminate this Agreement pursuant to Section 6.1(h); or (B) proceed with the transaction in which event the Exchange Ratio shall be 96.02% of the Adjusted Exchange Ratio and the cash component of the Merger Consideration shall be $7.20."

2. Section 6.1(h) of the Agreement is hereby amended and restated to read as follows in its entirety:

"(h) by CFC: i) pursuant to Section 2.5; or ii) if FOFC enters into an acquisition agreement or similar agreement with respect to a Superior Competing Proposal;"

3. Section 2.4(a)(iii)(A) is hereby amended and restated to read as follows in its entirety:

"(A) Fractional shares will not be issued and cash, payable by check, will be paid in lieu thereof as provided in Section 2.4(h); and"

4. Section 2.6(c) is hereby amended and restated to read as follows in its entirety:

"(c) At and after the Effective Time, each certificate of FOFC Common Stock (except as set forth in Section 2.11 with respect to Dissenting Shares) shall represent only the right to receive the Merger Consideration. No dividends or other distributions declared after the Effective Time with respect to CFC Common Stock shall be paid to the holder of any unsurrendered certificate formerly representing shares of FOFC Common Stock until such holder shall surrender such certificate in accordance with this Section. After the surrender of a certificate in accordance with this Section 2.6, the record holder thereof shall be entitled to receive any such dividends or other distributions, without any interest thereon, which theretofore have become payable with respect to shares of CFC Common Stock."

5. Section 2.8(a) is hereby amended and restated to read as follows in its entirety:

"(a) Immediately after the Effective Time, until their respective successors are duly elected or appointed and qualified, the directors of the Surviving Corporation shall consist of the directors of CFC serving immediately prior to the Effective Time, plus two directors of FOFC or Capital Bank serving immediately prior to the Effective Time, as selected solely in the discretion of CFC. The Bank Plan of Merger also shall provide for the selection of such directors to serve as directors of Chemung Bank."

6. Section 2.11 is hereby amended and restated to read as follows in its entirety:

"Notwithstanding any other provision of this Agreement to the contrary, shares of FOFC Common Stock that are outstanding immediately prior to the Effective Time and which are held by shareholders who shall have not voted in favor of the Merger or consented thereto in writing and who properly shall have demanded payment of the fair value for such shares in accordance with the DGCL (collectively, the "Dissenters' Shares") shall not be converted into or represent the right to receive the Merger Consideration. Such shareholders instead shall be entitled to receive payment of the fair value of such shares held by them in accordance with the provisions of the DGCL, except that all Dissenters' Shares held by shareholders who shall have failed to perfect or who effectively shall have withdrawn or otherwise lost their rights as dissenting shareholders under the DGCL shall thereupon be deemed to have been converted into and to have become exchangeable, as of the Effective Time, for the right to receive, without any interest thereon, the Merger Consideration upon surrender in the manner provided in Section 2.6 of the certificate(s) that, immediately prior to the Effective Time, evidenced such shares. FOFC shall give CFC: (i) prompt notice of any written demands for payment of the fair value of any shares of FOFC Common Stock, attempted withdrawals of such demands and any other instruments served pursuant to the DGCL and received by FOFC relating to shareholders' dissenters' rights; and (ii) the opportunity to participate in all negotiations and proceedings with respect to demands under the DGCL consistent with the obligations of FOFC thereunder. FOFC shall not, except with the prior written consent of CFC: (i) make any payment with respect to such demand; (ii) offer to settle or settle any demand for payment of fair value; or (iii) waive any failure to timely deliver a written demand for payment of fair value or timely take any other action to perfect payment of fair value rights in accordance with the DGCL."

7. Except as specifically amended by this Amendment, the Agreement shall remain in full force and effect. This Amendment shall be construed as one with the Agreement, and the Agreement shall, where the context requires, be read and construed so as to incorporate this Amendment.

8. This Amendment shall be governed by and construed in accordance with the Agreement.

9. All capitalized terms not defined herein shall have the meanings ascribed to such terms in the Agreement. Except for the provisions of this Amendment, the terms and conditions of the Agreement shall remain unchanged.

10. This Amendment may be executed in any number of separate counterparts, each such counterpart will be deemed to be an original instrument and all such counterparts will together constitute the same agreement. The execution and delivery of this Amendment may be effected by electronic means such as e-mail.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their duly authorized officers as of the day and year first written above.

CHEMUNG FINANCIAL CORPORATION

By: /s/ Ronald M. Bentley
Ronald M. Bentley
President and Chief Executive Officer

FORT ORANGE FINANCIAL CORP.

By: /s/ Peter D. Cureau
Peter D. Cureau
President and Chief Executive Officer

Appendix B

voting agreement

WHEREAS, Chemung Financial Corporation ("CFC"), and Fort Orange Financial Corp. ("FOFC") have entered into an Agreement and Plan of Merger dated as of October 14, 2010 (the "Merger Agreement"), pursuant to which, subject to the terms and conditions set forth therein: (a) FOFC will merge with and into CFC, with CFC surviving the merger (the "Merger"); and (b) shareholders of FOFC will receive Merger Consideration, as defined in the Merger Agreement, from CFC in exchange for each share of FOFC Common Stock outstanding on the Closing Date; and

WHEREAS, as a condition to its execution and delivery to FOFC of the Merger Agreement, CFC has requested that the undersigned, Peter D. Cureau ("Cureau"), execute and deliver to CFC this Voting Agreement;

NOW THEREFORE, the undersigned, in order to induce CFC to execute and deliver the Merger Agreement to FOFC, and intending to be legally bound, hereby agrees to the terms and conditions of this Voting Agreement.

1. Attendance at Meetings/Voting of Shares

(a) Cureau shall attend and be present, in person or by valid proxy, at all meetings of shareholders of FOFC called to vote for approval of the Merger so that all shares of FOFC Common Stock over which the Cureau or members of his immediate family now have sole or shared voting power will be counted for the purpose of determining the presence of a quorum at such meetings and to vote, or cause to be voted, all such shares: (i) in favor of approval and adoption of the Merger Agreement and the transactions contemplated thereby (including any amendments or modifications of the terms thereof approved by the FOFC Directors); and (ii) against approval or adoption of any other merger, business combination, recapitalization, partial liquidation or similar transaction involving FOFC, or any other action that would result in a material breach of any covenant, representation or warranty or any other obligation or agreement of FOFC contained in the Merger Agreement. As to immediate family members, Cureau will use his best efforts to cause the shares to be present and voted in accordance with (i) and (ii) above.

(b) Cureau will not make any public statements with respect to the Merger contrary to or inconsistent with the statements made by FOFC in support of the Merger or the FOFC Board of Directors recommendation to its shareholders to vote in favor of the Merger

2. No Disposition of Stock

Cureau shall not, prior to the meeting at which FOFC shareholders vote on the Merger Agreement (as such meeting may be adjourned), sell, transfer, gift, assign, encumber, create any third party rights in, or otherwise dispose of any of FOFC Common Stock except for transfers to charities, charitable trusts, or other charitable organizations under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, lineal descendants or a spouse, or to a trust or other entity for the benefit of one or more of the foregoing persons, providing that the transferee agrees in writing to be bound by the terms of this Voting Agreement.

3. Stock Ownership

As of the date hereof, the number of shares of FOFC's Common Stock beneficially owned (as defined under Rule 13d-3 of the Securities Exchange Act of 1934) by Cureau, excluding shares beneficially owned in a fiduciary capacity, is listed on Exhibit A hereto. These shares are, and any additional shares of FOFC's Common Stock acquired by Cureau, after the date hereof and prior to the Effective Time will be, owned beneficially by Cureau. As of the date hereof, the shares listed on Exhibit A hereto constitute all of the shares of FOFC Common Stock held of record, beneficially owned by or for which voting power or disposition power is held or shared by the Cureau. Cureau will have at all times through the Effective Time sufficient rights and powers over the voting and his obligation under this Voting Agreement. Cureau has good title to the shares listed on Exhibit A hereto, free and clear of any liens, and he will have good title to such shares and any additional shares of FOFC's Common Stock acquired by him after the date hereof and prior to the Effective Time, free and clear of any liens. This Voting Agreement is not in any way intended to affect the exercise by Cureau of his fiduciary responsibility with respect to any such securities.

4. No Inconsistent Agreements

Except for actions taken in furtherance of this Voting Agreement, while this Voting Agreement remains in effect, Cureau shall not: (i) enter into any voting agreement or voting trust with respect to FOFC shares he owns beneficially or of record; or (ii) grant any proxy, consent or power of attorney with respect to such shares which would be inconsistent with or violate Section 1.

5. No Violation

The execution and delivery of this Voting Agreement by Cureau does not, and his performance of his obligations hereunder will not: (i) to his knowledge, conflict with or violate any law, ordinance or regulation of any governmental authority applicable to or to which he or any of his assets or properties is bound; or (ii) conflict with, result in any breach of, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, acceleration or cancellation of, or require payment under, or result in the creation of any liens on the properties or assets of Cureau.

6. Fiduciary Responsibility and Duties of Cureau

This Voting Agreement relates solely to the capacity of Cureau as a FOFC shareholder and owner of FOFC Common Stock and is not in any way intended to affect the exercise of Cureau's responsibilities and fiduciary duties as a director or officer of FOFC or any of its Affiliates. Notwithstanding the foregoing, Cureau acknowledges and agrees that the exercise of Cureau's responsibilities and fiduciary duties as a director or officer of FOFC shall not, in any respect, affect or alter, or be deemed to permit a Cureau to terminate or circumvent his obligation to comply with the terms of this Voting Agreement (including, without limitation, Cureau's obligations under Section 2 hereof), nor shall the exercise of any such responsibilities and fiduciary duties by Cureau affect any of CFC's rights hereunder.

7. Termination

This Agreement shall terminate upon the termination of the Merger Agreement pursuant to Section 6.1 thereof.

8. Miscellaneous

(a) Capacity

Cureau represents that that he has the capacity to enter into this Voting Agreement and that it is a valid and binding obligation enforceable against him in accordance with its terms, subject to bankruptcy, insolvency and other laws affecting creditors' rights and general equitable principles.

(b) Capitalized Terms

Capitalized terms used in this Voting Agreement shall have the meanings ascribed to them in the Merger Agreement.

(c) Termination

The obligations set forth herein shall terminate concurrently with any termination of the Merger Agreement.

(d) Governing Law

This Voting Agreement shall be construed in accordance with the laws of the State of New York, without regard to conflict of laws principles.

(e) Counterparts

This Voting Agreement may be executed in two or more counterparts, each of which shall be deemed to constitute an original, but all of which together shall constitute one and the same Voting Agreement.

The undersigned, intending to be legally bound hereby, has executed this Voting Agreement as of the date indicated below.

/s/ Peter Cureau Date October 14, 2010
Peter Cureau

EXHIBIT A

Cureau's Beneficial Stock Ownership

Cureau	Shares
Total	

Appendix C

VOTING AND NON-COMPETITION AGREEMENT

WHEREAS, Chemung Financial Corporation ("CFC"), and Fort Orange Financial Corp. ("FOFC") have entered into an Agreement and Plan of Merger dated as of October 14, 2010 (the "Merger Agreement"), pursuant to which, subject to the terms and conditions set forth therein: (a) FOFC will merge with and into CFC, with CFC surviving the merger (the "Merger"); and (b) shareholders of FOFC will receive Merger Consideration, as defined in the Merger Agreement, from CFC in exchange for each share of FOFC Common Stock outstanding on the Closing Date; and

WHEREAS, as a condition to its execution and delivery to FOFC of the Merger Agreement, CFC has requested that the undersigned, being directors of FOFC ("FOFC Directors"), execute and deliver to CFC this Voting and Non-Competition Agreement;

NOW THEREFORE, each of the undersigned, in order to induce CFC to execute and deliver the Merger Agreement to FOFC, and intending to be legally bound, hereby agree to the terms and conditions of this Voting and Non-Competition Agreement.

1. Attendance at Meetings/Voting of Shares

(a) The FOFC Directors shall attend and be present, in person or by valid proxy, at all meetings of shareholders of FOFC called to vote for approval of the Merger so that all shares of FOFC Common Stock over which the FOFC Directors or members of their immediate family now have sole or shared voting power will be counted for the purpose of determining the presence of a quorum at such meetings and to vote, or cause to be voted, all such shares: (i) in favor of approval and adoption of the Merger Agreement and the transactions contemplated thereby (including any amendments or modifications of the terms thereof approved by the FOFC Directors); and (ii) against approval or adoption of any other merger, business combination, recapitalization, partial liquidation or similar transaction involving FOFC, or any other action that would result in a material breach of any covenant, representation or warranty or any other obligation or agreement of FOFC contained in the Merger Agreement. As to immediate family members, the FOFC Directors will use their best efforts to cause the shares to be present and voted in accordance with (i) and (ii) above.

(b) The FOFC Directors will not make any public statements with respect to the Merger contrary to or inconsistent with the statements made by FOFC in support of the Merger or the FOFC Board of Directors recommendation to its shareholders to vote in favor of the Merger

2. No Disposition of Stock

The FOFC Directors shall not, prior to the meeting at which FOFC shareholders vote on the Merger Agreement (as such meeting may be adjourned), sell, transfer, gift, assign, encumber, create any third party rights in, or otherwise dispose of any of FOFC Common Stock except for transfers to charities, charitable trusts, or other charitable organizations under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, lineal descendants or a spouse, or to a trust or other entity for the benefit of one or more of the foregoing persons, providing that the transferee agrees in writing to be bound by the terms of this Voting and Non-Competition Agreement.

3. Stock Ownership

As of the date hereof, the number of shares of FOFC's Common Stock beneficially owned (as defined under Rule 13d-3 of the Securities Exchange Act of 1934) by each FOFC Director, excluding shares beneficially owned in a fiduciary capacity, is listed on Exhibit A hereto. These shares are, and any additional shares of FOFC's Common Stock acquired by the FOFC Directors, after the date hereof and prior to the Effective Time will be, owned beneficially by the FOFC Directors. As of the date hereof, the shares listed on Exhibit A hereto constitute all of the shares of FOFC Common Stock held of record, beneficially owned by or for which voting power or disposition power is held or shared by the FOFC Directors. The FOFC Directors will have at all times through the Effective Time sufficient rights and powers over the voting and disposition of such shares to comply with their obligations under this Voting and Non-Competition Agreement. The FOFC Directors have good title to the shares listed on Exhibit A hereto, free and clear of any liens, and they will have good title to such shares and any additional shares of FOFC's Common Stock acquired by them after the date hereof and prior to the Effective Time, free and clear of any liens. This Voting and Non-Competition Agreement is not in any way intended to affect the exercise by a FOFC Director of his fiduciary responsibility with respect to any such securities.

4. No Inconsistent Agreements

Except for actions taken in furtherance of this Voting and Non-Competition Agreement, while this Voting and Non-Competition Agreement remains in effect, the FOFC Directors shall not: (i) enter into any voting agreement or voting trust with respect to FOFC shares they own beneficially or of record; or (ii) grant any proxy, consent or power of attorney with respect to such shares which would be inconsistent with or violate Section 1.

5. No Violation

The execution and delivery of this Voting and Non-Competition Agreement by the FOFC Directors does not, and their performance of their obligations hereunder will not: (i) to their knowledge, conflict with or violate any law, ordinance or regulation of any governmental authority applicable to or to which they or any of their assets or properties is bound; or (ii) conflict with, result in any breach of, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, acceleration or cancellation of, or require payment under, or result in the creation of any liens on the properties or assets of the FOFC Directors.

6. Fiduciary Responsibility and Duties of FOFC Directors

This Voting and Non-Competition Agreement relates solely to the capacity of the FOFC Directors as FOFC shareholders and owners of FOFC Common Stock and is not in any way intended to affect the exercise of the FOFC Directors' responsibilities and fiduciary duties as a director or officer of FOFC or any of its Affiliates. Notwithstanding the foregoing, the FOFC Directors acknowledge and agree that the exercise of the FOFC Directors' responsibilities and fiduciary duties as a director or officer of FOFC shall not, in any respect, affect or alter, or be deemed to permit a FOFC Director to terminate or circumvent such FOFC Director's obligation to comply with the terms of this Voting and Non-Competition Agreement (including, without limitation, the FOFC Director's obligations under Section 2 hereof), nor shall the exercise of any such responsibilities and fiduciary duties by a FOFC Director affect any of CFC's rights hereunder.

7. Non-Competition

(a) Beginning at the Effective Time and ending on the second anniversary of the Closing Date (the "Non-Competition Period"), the FOFC Directors shall not, directly or indirectly, alone or as a partner: (i) serve as an officer, director, owner, trustee, employee or consultant of any Person; or (ii) own, manage, control, operate, or otherwise invest, participate or engage in, any business or other enterprise that in any way competes with the business of FOFC or Capital Bank as conducted immediately prior to the Closing Date.

(b) During the Non-Competition Period, the FOFC Directors shall not knowingly or intentionally, directly or indirectly, either for himself or any other Person, solicit or induce, or attempt to solicit or induce, any individual who is, at such time, an employee or independent contractor of CFC or Chemung Bank to terminate his, her, or its relationship with CFC or Chemung Bank or in any way interfere with or disrupt CFC's or Chemung Bank's relationship with any of its employees or independent contractors; provided, however, that the foregoing provision shall not preclude the FOFC Directors and their Affiliates from: (i) making good faith generalized solicitations for employees through advertisements or search firms and hiring any persons through such solicitations; provided, that the FOFC Directors and their Affiliates do not encourage or advise such firm to approach any such employee and such searches are not targeted or focused CFC's or Chemung Bank's employees, or (ii) responding to or hiring any employee of CFC or Chemung Bank who contacts the FOFC Directors or their Affiliates at his or her own initiative without any prior direct or indirect encouragement or solicitation.

8. Miscellaneous

a. Capacity

Each FOFC Director represents that that he or she has the capacity to enter into this Voting and Non-Competition Agreement and that it is a valid and binding obligation enforceable against him or her in accordance with its terms, subject to bankruptcy, insolvency and other laws affecting creditors' rights and general equitable principles.

b. Capitalized Terms

Capitalized terms used in this Voting and Non-Competition Agreement shall have the meanings ascribed to them in the Merger Agreement.

c. Termination

The obligations set forth herein shall terminate concurrently with any termination of the Merger Agreement.

d. Governing Law

This Voting and Non-Competition Agreement shall be construed in accordance with the laws of the State of New York, without regard to conflict of laws principles.

e. Counterparts

This Voting and Non-Competition Agreement may be executed in two or more counterparts, each of which shall be deemed to constitute an original, but all of which together shall constitute one and the same Voting and Non-Competition Agreement.

The undersigned, constituting all of the FOFC Directors, intending to be legally bound hereby, have executed this Voting and Non-Competition Agreement as of the date(s) indicated below.

/s/ Larry H. Becker Larry H. Becker	Date October 14, 2010
/s/ Paul G. Kasselman Paul G. Kasselman	Date October 14, 2010
/s/ Raymond J. Kinley, Jr. Raymond J. Kinley, Jr.	Date October 14, 2010
/s/ Eugene M. Sneeringer, Jr. Eugene M. Sneeringer, Jr.	Date October 14, 2010
/s/ Edward P. Swyer Edward P. Swyer	Date October 14, 2010
/s/ Edward J. Trombly Edward J. Trombly	Date October 14, 2010

EXHIBIT A

FOFC Directors' Beneficial Stock Ownership

Director	Shares
Larry H. Becker	
Paul G. Kasselman	
Raymond J. Kinley, Jr.	
Eugene M. Sneeringer, Jr.	
Edward P. Swyer	
Edward J. Trombly	
Total	

Appendix D

AGREEMENT

This AGREEMENT (the "Agreement") is entered into and effective as of October 20, 2010 by and among PETER D. CUREAU, an individual residing at 60 Esopus Drive, Clifton Park, New York 12065 (the "Executive"), CAPITAL BANK & TRUST COMPANY, a banking company organized and existing under the laws of the State of New York (the "Bank"), and FORT ORANGE FINANCIAL CORP., a corporation incorporated under the laws of the State of Delaware (the "Parent"). Bank and Parent both have their principal place of business at 1375 Washington Avenue, Albany, New York 12206 and are sometimes collectively referred to herein as the "Bank Parties".

R E C I T A L S

A. Executive has been employed as President and Chief Executive Officer of each of Bank and Parent pursuant to that certain Executive Employment Agreement, dated as of January 1, 2008, by and between Executive and Bank (the "Employment Agreement").

B. The Employment Agreement provides that its stated expiration date of December 31, 2010 will be automatically extended for an additional term unless the Executive notifies the Bank Parties or the Bank Parties notify the Executive that they have elected that the term of the Employment Agreement not be extended.

C. Pursuant to the Employment Agreement, the Boards of Directors of the Bank Parties (the "Boards") have notified the Executive that the Bank Parties have elected not to extend the term of the Employment Agreement.

D. Subsequent to the determination by the Boards not to extend the Employment Agreement, a director of the Parent was contacted by a representative of Chemung Financial Corporation ("CFC") and discussions ensued regarding the possible acquisition of the Parent by CFC.

E. On September 8, 2010, a nonbinding letter of intent (the "LOI") was entered into by CFC and the Parent.

F. If the acquisition contemplated in the LOI takes place, it will occur after the Employment Agreement and the Executive's employment has terminated.

G. The Employment Agreement has certain "Change in Control" provisions in it which would become ineffective at the termination of Executive's employment on December 31, 2010.

H. The Executive and the Bank Parties have agreed that should the Parent be acquired by CFC as outlined in the LOI, Executive will be afforded some of the "Change in Control" benefits provided for in the Employment Agreement.

NOW, THEREFORE in consideration of the above premises, mutual promises, covenants, agreements, representations and warranties contained in this Agreement, the parties hereto agree as follows:

1. Termination of Employment; Service on Board of Directors.

(a) The parties acknowledge and agree that Executive's employment with Bank Parties shall terminate on December 31, 2010 (the "Separation Date"). Bank Parties acknowledge and agree that Executive shall continue to receive all payments, benefits, compensation and have all other rights as are contemplated under the Employment Agreement until and including the Separation Date.

(b) Unless removed pursuant to applicable by-laws, Executive shall continue to serve as a member of the board of directors of each of Bank Parties until the date that the closing of the acquisition of the Parent by CFC occurs (the "Closing Date").

2. Condition to Agreement.

The Executive and the Bank Parties agree that, except for the benefits payable pursuant to Sections 3(f) and 3(g) below, this Agreement and performance of the parties hereunder are expressly conditioned and contingent on the Parent being acquired by CFC and if said acquisition does not occur on or before June 30, 2011, this Agreement shall automatically terminate and Executive shall have no rights or claims hereunder.

3. Payments and Benefits.

Subject to the provisions of Section 7 of this Agreement relating to Sections 409A and 280G of the Internal Revenue Code of 1986, the Bank Parties shall pay to Executive the following:

(a) Severance Payment. Bank Parties shall pay to Executive $375,000.00 on the Closing Date, subject to the prior receipt by the Bank Parties and the Resulting Entity of an effective release from Executive, as described in Section 5 of this Agreement.

(b) Payment Associated with Insurance Claim Recovery. In the event that the Bank Parties obtain a settlement or other recovery payments in connection with an action (the "Action") pending in Supreme Court, Albany County titled Capital Bank & Trust Company v. Gulf Insurance Company, Index Number 3803-05 brought by the Bank to recover losses resulting from the criminal acts of a former employee, the Bank Parties shall make a lump sum payment to Executive as reflected on the table set forth below:

Recovery Amount (defined below)	Payment to Executive
Less than $1 million	10% of Recovery Amount
Between $1 million and $1.49 million	12.5% of Recovery Amount
$1.49 million or more	15% of Recovery Amount

The Recovery Amount shall be the gross amount recovered minus sums due pursuant to an agreement dated December 15, 2007 between the Bank and David G. Ashton III ("Ashton") (the "Ashton Agreement") pursuant to which Ashton acquired a portion of the Bank's claim.The lump sum payment to be paid to Executive as contemplated in this Section 3(b) shall be made no later than thirty (30) days following receipt of the proceeds of the Action. The foregoing payment amount shall not be reduced by any compensation that the Executive may receive for other employment with another employer.

The Bank Parties shall have sole and absolute discretion as to every aspect of the pursuit of the Action, including, inter alia, the conduct of any settlement negotiations and any decision to accept less than the full amount claimed, except that the Bank Parties shall have no authority to change the terms of this Agreement with respect to this issue, except as may be required pursuant to the Ashton Agreement.

(c) Option Securities Held by Executive. Bank Parties acknowledge and agree that, notwithstanding anything to the contrary stated in agreements which set forth the terms and conditions associated with options to purchase the stock of Parent that have been issued to Executive (the "Executive Stock Options"):

(i) Vested Stock Options. With respect to those Executive Stock Options in which Executive is fully vested, Executive shall be entitled to exercise, and Parent shall honor and accept such exercise of, such stock options.

(ii) Unvested Stock Options. With respect to those Executive Stock Options in which Executive is not fully vested, the Executive shall become fully vested in all unvested Executive Stock Options on the Closing Date.

(iii) Restricted Stock Grants. Parent shall make a grant of stock (the "Stock Grant") of the Parent's common stock in an amount of shares equal to all prior unvested restricted stock grants made to Executive during his employment (the "Unvested Restricted Stock"). Bank Parties and Executive agree that the Stock Grant shall be made in full on the Closing Date.

(d) Removal of Restrictions. Subject to applicable law, the Parent shall, effective on the Closing Date, cause all restrictions to be removed from all stock of the Parent that is being held in Executive's name by the transfer agent or any other party. The Parent shall also provide any letters and opinions reasonably needed to present to any party to remove such restrictions.

(e) Exercise. The Executive shall be permitted at exercise to make a cashless exercise of all options and restricted stock granted to him heretofore and in this Agreement.

(f) Performance Bonus. The Executive shall, no later then thirty (30) days following the Separation Date, receive his 2010 performance bonus of Twenty Five Thousand Dollars ($25,000.00). This shall be shall be paid within thirty (30) days of the Separation Date irrespective of whether the Closing occurs or not.

(g) Expense Reimbursement. The Executive shall be reimbursed for separation expenses in the amount of Ten Thousand Dollars ($10,000.00). This shall be shall be paid within thirty (30) days of the Separation Date irrespective of whether the Closing occurs or not.

4. Release from Restrictive Covenants; Additional Releases.

(a) Bank Parties acknowledge and agree that on the Separation Date, Executive shall be released from, and shall not be obligated to comply with, the terms and conditions of Section 6.1 of the Employment Agreement. Further, each of Bank Parties waive any and all claims against Executive that may arise as a result of Executive's failure to comply with the terms of Section 6.1 of the Employment Agreement. It is expressly understood and agreed, however, that Executive shall adhere to all confidentiality obligations set forth in the Employment Agreement.

(b) Executive agrees that in consideration for the payments and other benefits he will receive under this Agreement, he shall hereby release the Bank Parties from all liability, in accordance with the provisions of subparagraphs (c), (d) and (e) below, and shall execute a similar release on the Separation Date and an additional release in favor of the entity resulting from any assimilation of the Parent into CFC (the “Resulting Entity”), without revocation thereof, no later than twenty-one days after the Closing Date and no payment or benefit hereunder shall be provided to Executive prior to the Bank Parties’ or Resulting Entity’s, as applicable, receipt of such release and the expiration of any period of revocation provided for in the release.

(c) Executive shall forever release for himself and his agents, representatives, attorneys, insurers, predecessors, successors and assigns (collectively, the “Executive Parties”) from ANY AND ALL RIGHTS, CLAIMS, DEMANDS, CAUSES OF ACTION, OBLIGATIONS, DAMAGES, PENALTIES, FEES, COSTS, EXPENSES AND LIABILITIES OF ANY NATURE WHATSOEVER, WHICH THE EXECUTIVE HAS HAD OR MAY HAVE AGAINST the Bank PARTIES IN CONNECTION WITH ANY CAUSE OR MATTER WHATSOEVER, WHETHER KNOWN OR UNKNOWN TO THE PARTIES AS OF THE SEPARATION DATE AND INCLUDING WITHOUT LIMITATION, ALL MATTERS RELATING TO EXECUTIVE’S EMPLOYMENT AGREEMENT AND HIS EMPLOYMENT WITH BANK PARTIES AND THE TERMINATION OF SUCH EMPLOYMENT AND HIS SERVICE ON THE BOARD OF DIRECTORS OF BANK AND PARENT, SPECIFICALLY INCLUDING BUT NOT LIMITED TO ANY CLAIM ARISING PRIOR TO AND INCLUDING THE DATE THIS AGREEMENT IS EXECUTED UNDER THE AGE DISCRIMINATION IN EMPLOYMENT ACT (ADEA) AS AMENDED BY THE OLDER WORKERS BENEFIT PROTECTION ACT (OWBPA) OR ANY CLAIM OF DISCRIMINATION IN EMPLOYMENT UNDER ANY OTHER FEDERAL, STATE OR LOCAL LAW OR ANY CLAIMS OR OBLIGATIONS ATTENDANT TO THE EMPLOYMENT AGREEMENT, EXCEPT FOR OBLIGATIONS OWED UNDER THIS AGREEMENT AND THOSE CONTINUING OBLIGATIONS UNDER THE EMPLOYMENT AGREEMENT THAT REMAIN IN PLACE UNTIL THE SEPARATION DATE.

(d) Waiver of Rights. Executive agrees that the consideration he is receiving under this Agreement to waive his rights or claims under ADEA and/or OWBPA is over and above anything of value to which he is already entitled under any agreement with the Bank Parties or the Resulting Entity under any applicable policy, plan or practice of the Bank Parties, the Resulting Entity or otherwise.

(e) Effective Date; Revocation. Executive hereby agrees and acknowledges that he has been advised by the Bank Parties to consult with an attorney prior to executing this Agreement and has been offered a period of at least twenty-one (21) days within which to consider the terms of this Agreement. For a period of seven (7) days following execution, Executive may revoke this Agreement and this Agreement shall not become effective or enforceable until the said revocation period has expired.

5. Public Statements; Disparaging Comments; References and Recommendations.

(a) Executive and Bank Parties will refrain from making any public statements or comments, whether orally, in writing or transmitted electronically, about, concerning, or in any way related to the other party that may, directly or indirectly, have a material adverse effect upon the other party's business, prospects, reputation, or goodwill. Notwithstanding the foregoing, these restrictions shall not apply to any information that the parties are required to disclose in connection with any legal or regulatory proceedings or the prospective acquisition of the Parent by CFC.

(b) Executive will refrain from making any disparaging comments, either directly or indirectly, about or in any way related to Bank and/or Parent, including without limitation their respective businesses or their respective business prospects, either publicly or privately; provided, however, that these restrictions shall not apply to any information that Executive is required to disclose in connection with any legal or regulatory proceedings.

6. Miscellaneous Provisions.

(a) Assignment. This Agreement shall not be assignable, in whole or in part, without the written consent of all parties hereto; provided, however, that the Bank Parties may assign this Agreement to any successor to all or substantially all of the assets of the Bank Parties, including but not limited to the Resulting Entity.

(b) Governing Law. This Agreement is made under and shall be governed by and construed in accordance with the laws of the State of New York, without regard to the conflict of laws provisions thereof.

(c) Prior Agreements. This Agreement contains the entire agreement of the parties relating to the subject matter hereof.

(d) Successors and Assigns. This Agreement shall extend to and be binding upon the Executive, his legal representatives, heirs and distributees and upon Bank and Parent and their respective successors and permitted assigns.

(e) Amendments. No amendment or modification of this Agreement shall be effective unless in writing and signed by the parties hereto.

(f) Waiver. No term or condition of the Agreement shall be waived, nor shall there be any estoppel to enforce any provisions of this Agreement, except by a statement, in writing, signed by the party against whom enforcement of the waiver or estoppel is sought. Any written waiver shall not be a continuing waiver unless specifically stated, shall operate only as to the specific term or condition waived, and shall not constitute a waiver of such term or condition for the future or as to any act other than specifically waived.

(g) Severability. To the extent any provision of this Agreement shall be invalid or unenforceable, it shall be considered modified to the extent necessary to become valid and enforceable or, if such modification is impracticable, deleted from this Agreement, and the remainder of such provision and of this Agreement shall be unaffected and shall continue in full force and effect.

(h) Headings. The section headings of this Agreement are solely for the convenience of reference and shall not control the meaning or interpretation of any provisions in this Agreement.

(i) Notice. All notices required or permitted hereunder shall be in writing and may be personally delivered or mailed by registered or certified mail, postage prepaid or forwarded by any nationally recognized overnight courier service or transmitted by facsimile with a copy set first class mail, to such address as may be from time to time designated by the respective parties. Notice shall be effective upon receipt.

(j) Counterparts. This Agreement may be executed in one or more counterparts, each of which, when executed and delivered shall be an original, but such counterparts shall together constitute one and the same instrument.

(k) Further Assurances. At any time or from time to time after the date hereof, the parties agree to cooperate with each other, and at the request of any other party, to execute and deliver any further instruments or documents and to take all such further action as the other party may reasonably request in order to evidence or effectuate the consummation of the transactions contemplated hereby and to otherwise carry out the intent of the parties hereunder.

7. Restrictions on Timing of Distributions; Modifications of Payments by Bank Parties and Resulting Entity.

(a) Notwithstanding any provision of this Agreement to the contrary, if Executive is considered a Specified Employee (as defined in Section 409A of the Code) at separation from service (as defined below) other than on account of death or disability, in accordance with Section 409A of the Code, all payments hereunder, other than those that are deemed “separation pay” under Treas. Reg. §1.409A-1(b)(9), that are made upon separation from service may not commence earlier than six (6) months after the date of separation from service. Therefore, in the event this provision is applicable to Executive, any distribution which would otherwise be paid to Executive within the first six months following separation from service shall be accumulated and paid to Executive in a lump sum on the first day of the seventh month following separation from service.

(b) With respect to the payment of all benefits under Section 3 of this Agreement (excepting payments under subparagraph (b) thereof), whether a separation from service takes place is determined based on the facts and circumstances surrounding the termination of Executive’s employment and whether the Bank Parties or the Resulting Entity, as the case may be, intended for Executive to provide significant services to either the Bank Parties or the Resulting Entity following such termination of employment. A change in the Executive’s employment status will not be considered a separation from service if:

(i) Executive continues to provide services as an employee of either the Bank Parties or the Resulting Entity at an annual rate that is twenty percent (20%) or more of the services rendered, on average, during the immediately preceding three full calendar year of employment and the annual remuneration for such services is twenty percent (20%) or more of the average annual remuneration earned during the final three full calendar years of employment, or.

(ii) Executive continues to provide services to the Bank Parties or the Resulting Entity in a capacity other than as an employee of the Bank Parties or the Resulting Entity at an annual rate that is fifty percent (50%) or more of the services rendered, on average, during the immediately preceding three full calendar years of employment, and the annual remuneration for such services is fifty percent (50%) or more of the average annual remuneration earned during the final three full calendar years of employment.

(c) In the event that any payments or benefits (excluding payments that may be made pursuant to Section 3(b) of this Agreement) received or to be received by Executive (the “Total Payments”) in connection with a Change in Control or Executive’s separation from service with the Bank Parties or the Resulting Entity (whether or not such payments or benefits are provided pursuant to the terms of this Agreement, or any other plan, arrangement or agreement with the Bank Parties or the Resulting Entity) are “parachute payments” within the meaning of Section 280G of the Code and subject to the excise tax imposed by Section 4999 of the Code, then the benefit or payment shall be adjusted by an amount, such that the Total Payments do not exceed 2.99 of the “base amount” as defined in Section 280G(b)(3) of the Code (the “Payment Cap”). Executive hereby acknowledges and agrees that for purposes of this subparagraph (c) the Total Payments shall be treated as parachute payments within the meaning of Section 280G of the Code, and all parachute payments in excess of the base amount shall be treated as subject to the excise tax, and thus subject to modification up to the Payment Cap, unless, and except to the extent that, in the good faith judgment of the Resulting Entity, there is a reasonable basis to conclude that any amount or benefit paid or distributed to the Executive by the Bank Parties and/or the Resulting Entity, or under any other plan, arrangement, or agreement, either do not constitute parachute payments or represent reasonable compensation for services actually rendered (within the meaning of Section 280G(b)(4)(B) of the Code) in excess of the portion of the base amount allocable to such Total Payments, or such parachute payments are otherwise not subject to the excise tax.

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IN WITNESS WHEREOF, this Agreement has been duly authorized, approved, executed and delivered by the undersigned as of the date and year first written above.

EXECUTIVE:

/s/ Peter D. Cureau
Peter D. Cureau

BANK:

CAPITAL BANK & TRUST COMPANY

By: /s/ Eugene M. Sneeringer, Jr
Name: Eugene M. Sneeringer, Jr.
Title: Chairman of the Board

PARENT:

FORT ORANGE FINANCIAL CORP.

By: /s/ Eugene M. Sneeringer, Jr
Name: Eugene M. Sneeringer, Jr.
Title: Chairman of the Board

FIRST AMENDMENT
TO
AGREEMENT

THIS AMENDMENT AGREEMENT (the "First Amendment") is made effective as of the 28th day of December, 2010, by and among the parties signing below.

RECITALS

WHEREAS, Capital Bank & Trust Company (the "Bank"), Fort Orange Financial Corp. (the "Parent") and Peter D. Cureau (the "Executive") are parties to a certain Agreement dated October 20, 2010 (the "Agreement"); and

WHEREAS, parties desire to amend certain sections of the Agreement as set forth below.

NOW, THEREFORE, in consideration of the above premises, mutual promises, covenants, agreements, representations and warranties contained in the Agreement and this First Amendment, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Amendment of Section 3(c). Section 3(c) of the Agreement is hereby amended and restated by deleting current Section 3(c) in its entirety and replacing Section 3(c) with a new Section 3(c) to read in its entirety as follows:

(c) Stock Options and Restricted Stock Awards Held by Executive. Bank Parties acknowledge and agree that stock options to purchase the stock of Parent were issued to Executive and were outstanding as of October 14, 2010 (the "Executive Stock Options") and that the Executive Stock Options which have not otherwise been exercised by Executive as of the Closing Date, whether or not such Executive Stock Options were vested (the "Unexercised Options") will have expired prior to the Closing Date in accordance with the terms of any and all applicable stock or options plans sponsored by Parent. Bank Parties hereby agree that, on the Closing Date and in lieu of any other payment, or right, with respect to such Unexercised Options, Executive shall receive a cash payment in an aggregate amount determined in accordance with the following formula, which formula is based on Section 2.10 of the Agreement and Plan of Merger Dated as of October 14, 2010 By and Between Chemung Financial Corporation and Fort Orange Financial Corp. (the "Merger Agreement"):

the product of: (i) the number of shares of common stock of Parent subject to the Unexercised Options; and (ii) the difference, if any, between (x) the sum of: (1) 75% of the product of the Exchange Ratio (as defined in the Merger Agreement) and the Closing Price (as defined in the Merger Agreement), and (2) 25% of $7.50, and (y) the applicable exercise price per share of common stock of Parent under the terms of the Unexercised Options.

In addition, on the Closing Date, Parent shall make a grant of stock (the "Stock Grant") of the Parent's common stock in an amount of shares equal to all unvested restricted stock awards held by the Executive as of the Separation Date (the "Unvested Restricted Stock"), which Unvested Restricted Stock shall lapse and be forfeited by Executive as of the Separation Date in accordance with the terms of any and all applicable stock plans sponsored by Parent. Bank Parties and Executive agree that the Stock Grant shall be made in full on the Closing Date, shall be free of any restrictions as provided in Section 3(d) below, and shall be exchanged for the Merger Consideration as defined and provided for in Section 2.4 of the Merger Agreement.

2. Amendment of Section 3(e). Section 3(e) of the Agreement is hereby amended and restated by deleting current Section 3(e) in its entirety and replacing Section 3(e) with a new Section 3(e) to read in its entirety as follows:

(e) Intentionally Omitted.

3. Ratification. The Agreement, except as specifically modified and amended herein, is hereby ratified and confirmed in all respects.

4. Miscellaneous.

(a) Governing Law. This First Amendment shall be construed and enforced in accordance with the laws of the State of New York (exclusive of said State's conflicts of laws provisions).

(b) Amendments. Any amendments to this First Amendment shall be in writing and executed by each of the parties hereto.

(c) Entire Agreement. This First Amendment contains the entire understanding of the parties and supersedes any prior written or oral agreements between the parties respecting the subject matter of this First Amendment.

(d) Counterpart Execution. This First Amendment may be executed in multiple counterparts each of which shall be deemed an original and shall become effective when the separate counterparts have been exchanged among the parties. Facsimile and electronic signatures shall be deemed original signatures for all purposes of this First Amendment.

(e) Successor and Assigns. This First Amendment shall inure to the benefit of and be binding upon the transfers, successors, assigns, heirs, beneficiaries, executors, administrators, agents and representatives of the parties.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment effective as of the day and year first above written.

/s/ Peter D. Cureau
Peter D. Cureau

CAPITAL BANK & TRUST COMPANY

By: /s/ Eugene M. Sneeringer, Jr.
Name: Eugene M. Sneeringer, Jr.
Title: Chairman of the Board

FORT ORANGE FINANCIAL CORP.

By: /s/ Eugene M. Sneeringer, Jr
Name: Eugene M. Sneeringer, Jr.
Title: Chairman of the Board

Appendix E

October 14, 2010

Board of Directors
Fort Orange Financial Corp.
Capital Bank & Trust Company
1375 Washington Avenue
Albany, NY 12206

Dear Board Members:

You have requested FinPro, Inc.'s ("FinPro") written opinion, as an independent financial advisor to Fort Orange Financial Corp. ("FOFC"), as to the fairness, from a financial point of view, to FOFC and its stockholders of the consideration as proposed in the Agreement and Plan of Merger by and between Chemung Financial Corporation ("CFC") and FOFC dated October 14, 2010 (the "Agreement"), pursuant to which FOFC and its wholly-owned subsidiary Capital Bank & Trust Company ("Capital") will merge with CFC and its wholly-owned subsidiary Chemung Canal Trust Company ("Chemung").

Pursuant to the Agreement, FOFC stockholders shall receive 0.3571 shares of CFC, $7.50 per share in cash or some combination of the two. The consideration mix is 75% CFC stock and 25% cash. FOFC shareholders have the right to elect to receive all CFC stock, all cash or a mixture of stock and cash subject to the overall consideration mix. The merger consideration may be adjusted downward by as much as $0.30 per share in the event that FOFC impaired loans (as defined in the Agreement) exceed specified levels. Additionally, in the event that CFC's Closing Price (as defined in the Agreement) exceeds $25.20 per share the exchange ratio is floating and uses a $9.00 per share price for the stock portion of the merger consideration. The merger consideration is $29.3 million for all outstanding FOFC stock based upon CFC closing price of $21.50 on October 12, 2010.

In general, FinPro provides investment banking and consulting services to the bank and thrift industry, including appraisals and valuations of bank and thrift institutions and their securities in connection with mergers, acquisitions and other securities transactions. FinPro has knowledge of and experience with the New York bank and thrift market and financial institutions operating in this market. FOFC's Board chose FinPro because of its expertise, experience and familiarity with the bank and thrift industry.

FOFC retained FinPro to advise the Board of Directors of FOFC in connection with its merger and acquisition activities. Pursuant to its engagement, FinPro will be paid a fee for rendering its fairness opinion relating to the merger. FinPro acted as financial advisor to FOFC in connection with the merger and will receive total fees equal to $290,000 with respect to the transaction, a large portion of which is contingent upon the consummation of the merger. Additionally, FOFC has agreed to reimburse FinPro for its out-of-pocket expenses and has agreed to indemnify FinPro and certain related persons against certain liabilities possibly incurred in connection with the services performed. In the ordinary course of their own investment portfolio management, FinPro principals may purchase bank stock securities for their own long-term personal investment. In the scenario that a FinPro principal owns stock in a client, the principal will be recused from deal negotiation and the issuance of a written or oral fairness opinion.

FinPro has provided professional services to FOFC in the past, and has been paid for those services. Aggregate revenue received for services to FOFC is immaterial relative to FinPro's annual gross revenue. FinPro has never provided professional services to CFC.

In connection with its opinion, FinPro reviewed and considered, among other things:

- the Agreement, the exhibits, and the Disclosure Schedules thereto;
- historic changes in the market for bank stocks;
- trends and changes in the financial condition and results from operations of FOFC and CFC beginning with the 2005 fiscal year end;
- the most recent annual report to stockholders of FOFC and CFC;
- the most recent earnings releases for FOFC;
- the most recent 10-K of CFC;
- the quarterly reports on Form 10-Q of CFC; and
- the most recent audited financial statements of FOFC and CFC.

FinPro also had discussions with the management of FOFC regarding its financial results and has analyzed the most current financial data available for FOFC, Capital, Chemung, and CFC. In addition, FinPro considered financial studies, analyses and investigations and economic and market information that it deemed relevant. FinPro also considered the potential pro forma financial impact of the acquisition.

FinPro considered certain financial data of FOFC and compared that data to other comparable banks and their holding companies that were recently merged or acquired. Furthermore, FinPro considered the financial terms of the business combinations involving these banks and their holding companies.

FinPro did not independently verify the financial data provided by, or on behalf of, FOFC or CFC, but instead relied upon and assumed the accuracy and completeness of the data provided.

In reaching its opinion, FinPro took into consideration the financial benefits of the proposed transaction to FOFC stockholders. Based on all factors deemed relevant and assuming the accuracy and completeness of the information and data provided by FOFC, it is FinPro's opinion as of this date, the merger consideration to be paid by CFC pursuant to the Agreement, subject to the terms, conditions, and qualifications therein, is fair, from a financial point of view, to FOFC and its stockholders.

Respectfully Submitted,

FinPro, Inc.
Liberty Corner, New Jersey

Appendix F

INVESTMENT BANKING GROUP

October 14, 2010

Board of Directors
Chemung Financial Corporation
One Chemung Canal Plaza
P.O. Box 1522
Elmira, NY 14901

Ladies and Gentlemen:

Chemung Financial Corporation ("Chemung") and Fort Orange Financial Corp. ("Fort Orange") have entered into an Agreement and Plan of Merger, dated as of October 14, 2010 (the "Agreement"), pursuant to which Fort Orange will be merged with and into Chemung (the "Merger"), with Chemung as the surviving entity. Under the terms of the Agreement, at the Effective Time and as a result of the Merger, each share of Fort Orange common stock (the "Fort Orange Common Stock") issued and outstanding immediately prior to the Effective Time will be converted into the right to receive, at the election of the holder thereof: (i) 0.3571 shares (the "Exchange Ratio") of Chemung common stock (the "Chemung Common Stock"), (ii) $7.50 in cash, without interest (the "Cash Consideration" or (iii) a combination of such shares of Chemung Common Stock and cash (and together with the Exchange Ratio and the cash , the "Merger Consideration"). The Merger Consideration is subject to adjustments related to increases in the share price of Chemung Common Stock and certain other adjustments as further described in the Agreement. Cash will be paid in lieu of fractional shares. Capitalized terms used herein without definition shall have the meanings assigned to them in the Agreement. The other terms and conditions of the Merger are more fully set forth in the Agreement. You have requested our opinion as to the fairness, from a financial point of view, of the Merger Consideration to Chemung.

Sandler O'Neill & Partners, L.P., as part of its investment banking business, is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions. In connection with this opinion, we have reviewed, among other things: (i) the Agreement; (ii) certain publicly available financial statements and other historical financial information of Chemung that we deemed relevant; (iii) certain publicly available financial statements and other historical financial information of Fort Orange that we deemed relevant; (iv) internal financial projections for Chemung for the years ending December 31, 2010 through 2013 and an estimated growth and performance rate for the years thereafter in each case as provided by, and reviewed with, senior management of Chemung; (v) internal financial projections for Fort Orange for the year ending December 31, 2010 as provided by senior management of Fort Orange and as adjusted by senior management of Chemung and a long-term estimated growth rate for the years thereafter as provided by the senior management of Chemung; (vi) the pro forma financial impact of the Merger on Chemung, based on assumptions relating to transaction expenses, purchase accounting adjustments and cost savings determined by the senior management of Chemung; (vii) the publicly reported historical price and trading activity for Chemung's and Fort Orange's common stock, including a comparison of certain financial and stock market information for Chemung and Fort Orange and similar publicly available information for certain other companies the securities of which are publicly traded; (viii) the financial terms of certain recent business combinations in the commercial banking industry, to the extent publicly available; (ix) the current market environment generally and the banking environment in particular; and (x) such other information, financial studies, analyses and investigations and financial, economic and market criteria as we considered relevant. We also discussed with certain members of senior management of Chemung the business, financial condition, results of operations and prospects of Chemung and held similar discussions with certain members of senior management of Fort Orange regarding the business, financial condition, results of operations and prospects of Fort Orange.

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In performing our review, we have relied upon the accuracy and completeness of all of the financial and other information that was available to us from public sources or that was provided to us by Chemung and Fort Orange or their respective representatives and have assumed such accuracy and completeness for purposes of rendering this opinion. We have further relied on the assurances of management of Chemung and Fort Orange that they are not aware of any facts or circumstances that would make any of such information inaccurate or misleading. We have not been asked to and have not undertaken an independent verification of any of such information and we do not assume any responsibility or liability for the accuracy or completeness thereof. We did not make an independent evaluation or appraisal of the specific assets, the collateral securing assets or the liabilities (contingent or otherwise) of Chemung and Fort Orange or any of their subsidiaries, or the collectibility of any such assets, nor have we been furnished with any such evaluations or appraisals. We did not make an independent evaluation of the adequacy of the allowance for loan losses of Chemung and Fort Orange nor have we reviewed any individual credit files relating to Chemung and Fort Orange. We have assumed, with your consent, that the respective allowances for loan losses for both Chemung and Fort Orange are adequate to cover such losses.

With respect to the internal financial projections for Chemung as provided by the senior management of Chemung and the internal financial projections for Fort Orange as provided by the senior management of Fort Orange and adjusted by senior management of Chemung and in each case used by us in our analyses, Chemung’s and Fort Orange’s respective managements confirmed to us that they reflected the best currently available estimates and judgments of the respective future financial performances of Chemung and Fort Orange, respectively, and we assumed that such performances would be achieved. With respect to the projections of transaction expenses, purchase accounting adjustments and cost savings determined by and reviewed with the senior management of Chemung, management confirmed to us that they reflected the best currently available estimates and judgments of such management and we assumed that such performances would be achieved. We express no opinion as to such financial projections or the assumptions on which they are based. We have also assumed that there has been no material change in Chemung’s and Fort Orange’s assets, financial condition, results of operations, business or prospects since the date of the most recent financial statements made available to us. We have assumed in all respects material to our analysis that Chemung and Fort Orange will remain as going concerns for all periods relevant to our analyses, that all of the representations and warranties contained in the Agreement and all related agreements are true and correct, that each party to the agreements will perform all of the covenants required to be performed by such party under the agreements and that the conditions precedent in the agreements are not waived. Finally, with your consent, we have relied upon the advice Chemung has received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the Merger and the other transactions contemplated by the Agreement.

Our opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. Events occurring after the date hereof could materially affect this opinion. We have not undertaken to update, revise, reaffirm or withdraw this opinion or otherwise comment upon events occurring after the date hereof. We are expressing no opinion herein as to what the value of Chemung's common stock will be when issued to Fort Orange's shareholders pursuant to the Agreement or the prices at which Chemung's or Fort Orange's common stock may trade at any time.

We have acted as Chemung's financial advisor in connection with the Merger and will receive a fee for our services, a substantial portion of which is contingent upon consummation of the Merger. We will also receive a fee for this fairness opinion. Chemung has also agreed to indemnify us against certain liabilities arising out of our engagement.

In the ordinary course of our business as a broker-dealer, we may purchase securities from and sell securities to Chemung and Fort Orange and their affiliates. We may also actively trade the equity or debt securities of Chemung and Fort Orange or their affiliates for our own account and for the accounts of our customers and, accordingly, may at any time hold a long or short position in such securities.

Our opinion is directed to the Board of Directors of Chemung in connection with its consideration of the Merger and is directed only to the fairness, from a financial point of view, of the Merger Consideration to Chemung and does not address the underlying business decision of Chemung to engage in the Merger, the relative merits of the Merger as compared to any other alternative business strategies that might exist for Chemung or the effect of any other transaction in which Chemung might engage. Our opinion is not to be quoted or referred to, in whole or in part, in a registration statement, prospectus, proxy statement or in any other document, nor shall this opinion be used for any other purposes, without our prior written consent. This opinion has been approved by Sandler O'Neill's fairness opinion committee and does not address the amount of compensation to be received in the Merger by any Chemung officer, director or employee.

Based upon and subject to the foregoing, it is our opinion, as of the date hereof, that the Merger Consideration is fair to Chemung from a financial point of view.

Very truly yours,

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Appendix G

CHAPTER 1. DELAWARE GENERAL CORPORATION LAW

Subchapter IX. Merger, Consolidation or Conversion

§ 262. Appraisal rights [Effective Aug. 2, 2010]

(a) Any stockholder of a corporation of this State who holds shares of stock on the date of the making of a demand pursuant to subsection (d) of this section with respect to such shares, who continuously holds such shares through the effective date of the merger or consolidation, who has otherwise complied with subsection (d) of this section and who has neither voted in favor of the merger or consolidation nor consented thereto in writing pursuant to § 228 of this title shall be entitled to an appraisal by the Court of Chancery of the fair value of the stockholder's shares of stock under the circumstances described in subsections (b) and (c) of this section. As used in this section, the word "stockholder" means a holder of record of stock in a corporation; the words "stock" and "share" mean and include what is ordinarily meant by those words; and the words "depository receipt" mean a receipt or other instrument issued by a depository representing an interest in 1or more shares, or fractions thereof, solely of stock of a corporation, which stock is deposited with the depository.

(b) Appraisal rights shall be available for the shares of any class or series of stock of a constituent corporation in a merger or consolidation to be effected pursuant to § 251 (other than a merger effected pursuant to § 251(g) of this title), § 252, § 254, § 255, § 256, § 257, § 258, § 263 or § 264 of this title:

(1) Provided, however, that no appraisal rights under this section shall be available for the shares of any class or series of stock, which stock, or depository receipts in respect thereof, at the record date fixed to determine the stockholders entitled to receive notice of the meeting of stockholders to act upon the agreement of merger or consolidation, were either (i) listed on a national securities exchange or (ii) held of record by more than 2,000 holders; and further provided that no appraisal rights shall be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in § 251(f) of this title.

(2) Notwithstanding paragraph (1) of this subsection, appraisal rights under this section shall be available for the shares of any class or series of stock of a constituent corporation if the holders thereof are required by the terms of an agreement of merger or consolidation pursuant to §§ 251, 252, 254, 255, 256, 257, 258, 263 and 264 of this title to accept for such stock anything except:

a. Shares of stock of the corporation surviving or resulting from such merger or consolidation, or depository receipts in respect thereof;

b. Shares of stock of any other corporation, or depository receipts in respect thereof, which shares of stock (or depository receipts in respect thereof) or depository receipts at the effective date of the merger or consolidation will be either listed on a national securities exchange or held of record by more than 2,000 holders;

c. Cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a. and b. of this paragraph; or

d. Any combination of the shares of stock, depository receipts and cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a., b. and c. of this paragraph.

(3) In the event all of the stock of a subsidiary Delaware corporation party to a merger effected under § 253 or § 267 of this title is not owned by the parent immediately prior to the merger, appraisal rights shall be available for the shares of the subsidiary Delaware corporation.

(c) Any corporation may provide in its certificate of incorporation that appraisal rights under this section shall be available for the shares of any class or series of its stock as a result of an amendment to its certificate of incorporation, any merger or consolidation in which the corporation is a constituent corporation or the sale of all or substantially all of the assets of the corporation. If the certificate of incorporation contains such a provision, the procedures of this section, including those set forth in subsections (d) and (e) of this section, shall apply as nearly as is practicable.

(d) Appraisal rights shall be perfected as follows:

(1) If a proposed merger or consolidation for which appraisal rights are provided under this section is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, shall notify each of its stockholders who was such on the record date for notice of such meeting (or such members who received notice in accordance with § 255(c) of this title) with respect to shares for which appraisal rights are available pursuant to subsection (b) or (c) of this section that appraisal rights are available for any or all of the shares of the constituent corporations, and shall include in such notice a copy of this section and, if 1 of the constituent corporations is a nonstock corporation, a copy of § 114 of this title. Each stockholder electing to demand the appraisal of such stockholder’s shares shall deliver to the corporation, before the taking of the vote on the merger or consolidation, a written demand for appraisal of such stockholder’s shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such stockholder’s shares. A proxy or vote against the merger or consolidation shall not constitute such a demand. A stockholder electing to take such action must do so by a separate written demand as herein provided. Within 10 days after the effective date of such merger or consolidation, the surviving or resulting corporation shall notify each stockholder of each constituent corporation who has complied with this subsection and has not voted in favor of or consented to the merger or consolidation of the date that the merger or consolidation has become effective; or

(2) If the merger or consolidation was approved pursuant to § 228, § 253, or § 267 of this title, then either a constituent corporation before the effective date of the merger or consolidation or the surviving or resulting corporation within 10 days thereafter shall notify each of the holders of any class or series of stock of such constituent corporation who are entitled to appraisal rights of the approval of the merger or consolidation and that appraisal rights are available for any or all shares of such class or series of stock of such constituent corporation, and shall include in such notice a copy of this section and, if 1 of the constituent corporations is a nonstock corporation, a copy of § 114 of this title. Such notice may, and, if given on or after the effective date of the merger or consolidation, shall, also notify such stockholders of the effective date of the merger or consolidation. Any stockholder entitled to appraisal rights may, within 20 days after the date of mailing of such notice, demand in writing from the surviving or resulting corporation the appraisal of such holder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such holder's shares. If such notice did not notify stockholders of the effective date of the merger or consolidation, either (i) each such constituent corporation shall send a second notice before the effective date of the merger or consolidation notifying each of the holders of any class or series of stock of such constituent corporation that are entitled to appraisal rights of the effective date of the merger or consolidation or (ii) the surviving or resulting corporation shall send such a second notice to all such holders on or within 10 days after such effective date; provided, however, that if such second notice is sent more than 20 days following the sending of the first notice, such second notice need only be sent to each stockholder who is entitled to appraisal rights and who has demanded appraisal of such holder's shares in accordance with this subsection. An affidavit of the secretary or assistant secretary or of the transfer agent of the corporation that is required to give either notice that such notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. For purposes of determining the stockholders entitled to receive either notice, each constituent corporation may fix, in advance, a record date that shall be not more than 10 days prior to the date the notice is given, provided, that if the notice is given on or after the effective date of the merger or consolidation, the record date shall be such effective date. If no record date is fixed and the notice is given prior to the effective date, the record date shall be the close of business on the day next preceding the day on which the notice is given.

(e) Within 120 days after the effective date of the merger or consolidation, the surviving or resulting corporation or any stockholder who has complied with subsections (a) and (d) of this section hereof and who is otherwise entitled to appraisal rights, may commence an appraisal proceeding by filing a petition in the Court of Chancery demanding a determination of the value of the stock of all such stockholders. Notwithstanding the foregoing, at any time within 60 days after the effective date of the merger or consolidation, any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party shall have the right to withdraw such stockholder's demand for appraisal and to accept the terms offered upon the merger or consolidation. Within 120 days after the effective date of the merger or consolidation, any stockholder who has complied with the requirements of subsections (a) and (d) of this section hereof, upon written request, shall be entitled to receive from the corporation surviving the merger or resulting from the consolidation a statement setting forth the aggregate number of shares not voted in favor of the merger or consolidation and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such written statement shall be mailed to the stockholder within 10 days after such stockholder's written request for such a statement is received by the surviving or resulting corporation or within 10 days after expiration of the period for delivery of demands for appraisal under subsection (d) of this section hereof, whichever is later. Notwithstanding subsection (a) of this section, a person who is the beneficial owner of shares of such stock held either in a voting trust or by a nominee on behalf of such person may, in such person's own name, file a petition or request from the corporation the statement described in this subsection.

(f) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the surviving or resulting corporation, which shall within 20 days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by the surviving or resulting corporation. If the petition shall be filed by the surviving or resulting corporation, the petition shall be accompanied by such a duly verified list. The Register in Chancery, if so ordered by the Court, shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the surviving or resulting corporation and to the stockholders shown on the list at the addresses therein stated. Such notice shall also be given by 1 or more publications at least 1 week before the day of the hearing, in a newspaper of general circulation published in the City of Wilmington, Delaware or such publication as the Court deems advisable. The forms of the notices by mail and by publication shall be approved by the Court, and the costs thereof shall be borne by the surviving or resulting corporation.

(g) At the hearing on such petition, the Court shall determine the stockholders who have complied with this section and who have become entitled to appraisal rights. The Court may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with such direction, the Court may dismiss the proceedings as to such stockholder.

(h) After the Court determines the stockholders entitled to an appraisal, the appraisal proceeding shall be conducted in accordance with the rules of the Court of Chancery, including any rules specifically governing appraisal proceedings. Through such proceeding the Court shall determine the fair value of the shares exclusive of any element of value arising from the accomplishment or expectation of the merger or consolidation, together with interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Court shall take into account all relevant factors. Unless the Court in its discretion determines otherwise for good cause shown, interest from the effective date of the merger through the date of payment of the judgment shall be compounded quarterly and shall accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the effective date of the merger and the date of payment of the judgment. Upon application by the surviving or resulting corporation or by any stockholder entitled to participate in the appraisal proceeding, the Court may, in its discretion, proceed to trial upon the appraisal prior to the final determination of the stockholders entitled to an appraisal. Any stockholder whose name appears on the list filed by the surviving or resulting corporation pursuant to subsection (f) of this section and who has submitted such stockholder's certificates of stock to the Register in Chancery, if such is required, may participate fully in all proceedings until it is finally determined that such stockholder is not entitled to appraisal rights under this section.

(i) The Court shall direct the payment of the fair value of the shares, together with interest, if any, by the surviving or resulting corporation to the stockholders entitled thereto. Payment shall be so made to each such stockholder, in the case of holders of uncertificated stock forthwith, and the case of holders of shares represented by certificates upon the surrender to the corporation of the certificates representing such stock. The Court's decree may be enforced as other decrees in the Court of Chancery may be enforced, whether such surviving or resulting corporation be a corporation of this State or of any state.

(j) The costs of the proceeding may be determined by the Court and taxed upon the parties as the Court deems equitable in the circumstances. Upon application of a stockholder, the Court may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney's fees and the fees and expenses of experts, to be charged pro rata against the value of all the shares entitled to an appraisal.

(k) From and after the effective date of the merger or consolidation, no stockholder who has demanded appraisal rights as provided in subsection (d) of this section shall be entitled to vote such stock for any purpose or to receive payment of dividends or other distributions on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation); provided, however, that if no petition for an appraisal shall be filed within the time provided in subsection (e) of this section, or if such stockholder shall deliver to the surviving or resulting corporation a written withdrawal of such stockholder's demand for an appraisal and an acceptance of the merger or consolidation, either within 60 days after the effective date of the merger or consolidation as provided in subsection (e) of this section or thereafter with the written approval of the corporation, then the right of such stockholder to an appraisal shall cease. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall be dismissed as to any stockholder without the approval of the Court, and such approval may be conditioned upon such terms as the Court deems just; provided, however that this provision shall not affect the right of any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party to withdraw such stockholder's demand for appraisal and to accept the terms offered upon the merger or consolidation within 60 days after the effective date of the merger or consolidation, as set forth in subsection (e) of this section.

(l) The shares of the surviving or resulting corporation to which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

8 Del. C. 1953, § 262; 56 Del. Laws, c. 50; 56 Del. Laws, c. 186, § 24; 57 Del. Laws, c. 148, §§ 27-29; 59 Del. Laws, c. 106, § 12; 60 Del. Laws, c. 371, §§ 3-12; 63 Del. Laws, c. 25, § 14; 63 Del. Laws, c. 152, §§ 1, 2; 64 Del. Laws, c. 112, §§ 46-54; 66 Del. Laws, c. 136, §§ 30-32; 66 Del. Laws, c. 352, § 9; 67 Del. Laws, c. 376, §§ 19, 20; 68 Del. Laws, c. 337, §§ 3, 4; 69 Del. Laws, c. 61, § 10; 69 Del. Laws, c. 262, §§ 1-9; 70 Del. Laws, c. 79, § 16; 70 Del. Laws, c. 186, § 1; 70 Del. Laws, c. 299, §§ 2, 3; 70 Del. Laws, c. 349, § 22; 71 Del. Laws, c. 120, § 15; 71 Del. Laws, c. 339, §§ 49-52; 73 Del. Laws, c. 82, § 21; 76 Del. Laws, c. 145, §§ 11-16; 77 Del. Laws, c. 14, §§ 12, 13; 77 Del. Laws, c. 253, §§ 47-50; 77 Del. Laws, c. 290, §§ 16, 17.;

Part II
Information Not Required in Prospectus

Item 20. Indemnification of Directors and Officers

Under Section 722 of the NYBCL, a corporation may indemnify its directors and officers made, or threatened to be made, a party to any action or proceeding related to service as a director or officer, except for shareholder derivative suits, if the director or officer acted in good faith and for a purpose that he or she reasonably believed to be in, or, in the case of service to another corporation or enterprise, not opposed to the best interests of the corporation, and, in addition in criminal proceedings, had no reasonable cause to believe his or her conduct was unlawful. In the case of shareholder derivative suits, the corporation may indemnify a director or officer if he or she acted in good faith for a purpose that he or she reasonably believed to be in, or, in the case of service to another corporation or enterprise, not opposed to the best interests of the corporation, except that no indemnification may be made in respect of (i) a threatened action, or a pending action that is settled or otherwise disposed of or (ii) any claim, issue or matter as to which such individual has been adjudged to be liable to the corporation, unless and only to the extent that the court in which the action was brought or, if no action was brought, any court of competent jurisdiction, determines, upon application, that, in view of all the circumstances of the case, the individual is fairly and reasonably entitled to indemnity for the portion of the settlement amount and expenses as the court deems proper.

Any individual who has been successful on the merits or otherwise in the defense of a civil or criminal action or proceeding will be entitled to indemnification. Except as provided in the preceding sentence, unless ordered by a court pursuant to Section 724 of the NYBCL, any indemnification under the NYBCL as described in the immediately preceding paragraph may be made only if, pursuant to Section 723 of the NYBCL, indemnification is authorized in the specific case and after a finding that the director or officer met the requisite standard of conduct by the disinterested directors if a quorum is available, or, if the quorum so directs or is unavailable, by (i) the board of directors upon the written opinion of independent legal counsel or (ii) the shareholders. Further, New York law permits a corporation to purchase directors and officers insurance.

Chemung Financial’s certificate of incorporation provides that any person made or threatened to be made a party to any action or proceeding, whether civil or criminal, by reason of the fact that he is or was a director or officer of Chemung Financial shall be indemnified by Chemung Financial against judgments, fines, amounts paid in settlement and reasonable expenses, including attorneys’ fees actually and necessarily incurred as a result of such action or proceeding, or any appeal therein, to the fullest extent permitted by New York law.

As permitted by Section 722 of the NYBCL, Section 9 of the certificate of incorporation of Chemung Financial provides:

“9. Indemnification.

Every person who is or was, or whose testator or intestate was, a director or officer of the Corporation, or of any Corporation which he served as such at the request of the Corporation, shall be indemnified by the Corporation to the fullest extent permitted by law against all expenses and liabilities reasonably incurred by or imposed upon him, in connection with any proceeding to which he may be made, or threatened to be made, a party, or in which he may become involved by reason of his or his testator’s or intestate’s being or having been a director or officer of the Corporation, or of such other Corporation, whether or not he is a director or officer of Corporation or such other Corporation at the time the expenses or liabilities are incurred.”

Chemung Financial has purchased insurance on behalf of any person who is or was a director, officer, employee or agent of Chemung Financial, or is or was serving at the request of Chemung Financial as a director, officer, employee

or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not Chemung Financial would have the power to indemnify him against such liability under the provisions of Chemung Financial's certificate of incorporation.

Item 21. Exhibits and Financial Statement Schedules

(a) Exhibits

2.1 Agreement and Plan of Merger by and between Chemung Financial Corporation and Fort Orange Financial Corp. dated as of October 14, 2010 (included as Appendix A1 to the joint proxy statement/prospectus contained in this Registration Statement). Schedules and certain exhibits are omitted; Chemung Financial agrees to furnish copies of Schedules to the Securities and Exchange Commission upon request.

2.2 First Amendment dated December 28, 2010 to Agreement and Plan of Merger by and between Chemung Financial Corporation and Fort Orange Financial Corp. dated as of October 14, 2010 (included as Appendix A2 to the joint proxy statement/prospectus contained in this Registration Statement).

3.1 Certificate of Incorporation of Chemung Financial Corporation dated December 20, 1984 (as incorporated by reference to Exhibit 3.1 to Registrant’s Form 10-K for the year ended December 31, 2007 and filed with the SEC on March 13, 2008).

3.2 Certificate of Amendment to the Certificate of Incorporation of Chemung Financial Corporation, dated March 28, 1988, (as incorporated by reference to Exhibit 3.4 to Registrant’s Form 10-K for the year ended December 31, 2007 and filed with the SEC on March 13, 2008).

3.3 Certificate of Amendment to the Certificate of Incorporation of Chemung Financial Corporation, dated May 13, 1998, (as incorporated by reference to Exhibit 3.4 to Registrant’s Form 10-K for the year ended December 31, 2005 and filed with the SEC on March 15, 2006.

3.4 Amended and Restated Bylaws of Chemung Financial Corporation, as amended to October 21, 2009 (incorporated by reference to Exhibit 3.1 to Registrant’s Form 10-Q for the quarter ended September 30, 2009 and filed with the SEC on November 9, 2009).

4.1 Specimen Stock Certificate of Chemung Financial Corporation (as incorporated by reference to Exhibit 4.1 to Registrant’s Form 10-K for the year ended December 31, 2002 and filed with the SEC on March 24, 2003).

5.1	Opinion of Hinman, Howard & Kattell, LLP as to the legality of the securities being issued * (to be filed by amendment) **
8.1	Opinion of Hiscock & Barclay , LLP as to tax matters *
23.1	Consent of Crowe Horwath LLP *
23. 2	Consent of ParenteBeard LLC *
23. 3	Consent of Hinman, Howard & Kattell, LLP (included in Exhibit 5.1)
23.4	Consent of Hiscock & Barclay, LLP (included in Exhibit 8.1)
24.1	Power of Attorney of Directors and Officers of Chemung Financial Corporation**
99.1	Form of Proxy Card of Chemung Financial Corporation **
99.2	Form of Proxy Card of Fort Orange Financial Corp. **
99.3	Fairness Opinion of FinPro, Inc. (included as Appendix E to the joint proxy statement/prospectus contained in this Registration Statement).
99.4	Fairness Opinion of Sandler O’Neill & Partners, L.P. (included as Appendix F to this joint proxy statement/prospectus contained in this Registration Statement).
99.5	Consent of FinPro, Inc. *
99.6	Consent of Sandler O’Neill & Partners, L.P. *
99.7	Voting Agreement executed by Peter D. Cureau dated as of October 14, 2010 (included as Appendix B to the joint proxy statement/prospectus contained in this Registration Statement).
99.8	Voting and Non-Competition Agreement executed by Fort Orange Financial Corp. directors (other than Peter D. Cureau (included as Appendix C to the joint proxy statement/prospectus contained in this Registration Statement).
99.9	Agreement by Peter D. Cureau dated as of October 20, 2010 and First Amendment to the Agreement by Peter D. Cureau dated December 28, 2010 (included as Appendix D to the joint proxy statement/prospectus contained in this Registration Statement).
99.10	Executive Employment Agreement between Capital Bank & Trust Company and Steven J. Owens, with First Amendment thereto both dated as of January 1, 2011

* Previously filed.
** Filed herewith.

Item 22. Undertakings

(a) The undersigned registrant hereby undertakes:

(1) to file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or most recent post-effective amendment thereof) which individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in the volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent not more than a 20 percent change in the maximum offering price set forth in the “Calculation of Registration Fee” table in the effective registration statement;

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) that, for the purpose of determining any liability under the Securities Act , each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be a bona fide offering thereof.

(3) to remove from registration, by means of a post-effective amendment, any of the securities being registered which remain unsold at the termination of the offering.

(b) (1) The undersigned registrant hereby undertakes as follows: that prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other Items of the applicable form.

(2) The registrant undertakes that every prospectus (i) that is filed pursuant to paragraph (1) immediately preceding, or (ii) that purports to meet the requirements of section 10(a)(3) of the Securities Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for the purposes of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) For purposes of determining any liability under the Securities Act , each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(d) The registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Exchange Act; and, where interim financial information required to be presented by Article 3 of Regulation S-X are not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

(e) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(f) The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(g) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of, and included in the registration statement when it became effective.

Signatures

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Elmira, New York, on January 21, 2011 .

CHEMUNG FINANCIAL CORPORATION

By: /s/ Ronald M. Bentley
Ronald M. Bentley
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Ronald M. Bentley Ronald M. Bentley	President, Chief Executive Officer and Director (Principal Executive Officer)	January 21, 2011
/s/ John R. Battersby, Jr. John R. Battersby, Jr.	Chief Financial Officer Treasurer (Principal Financial and Accounting Officer)	January 21, 2011
* Robert E. Agan	Director	January 21, 2011
* Ronald H. Dalrymple	Director	January 21, 2011
* David J. Dalrymple	Director	January 21, 2011
* Clover M. Drinkwater	Director	January 21, 2011
* William D. Eggers	Director	January 21, 2011
* Stephen M. Lounsberry III	Director	January 21, 2011
* Thomas K. Meier	Director	January 21, 2011
* Ralph H. Meyer	Director	January 21, 2011
*		

John F. Potter	Director	January 21, 2011

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Signatures	Title	Date
* Robert L. Storch	Director	January 21, 2011
* Charles M. Streeter, Jr.	Director	January 21, 2011
* Richard W. Swan	Director	January 21, 2011
* Jan P. Updegraff	Director	January 21, 2011
* /s/ Ronald M. Bentley Ronald M. Bentley Attorney-in-fact	Director	January 21, 2011

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Exhibit Index

Number	Description
2.1	Agreement and Plan of Merger by and between Chemung Financial Corporation and Fort Orange Financial Corp. dated as of October 14, 2010 (included as Appendix A1 to the joint proxy statement/prospectus contained in this Registration Statement). Schedules and certain exhibits are omitted; Chemung Financial agrees to furnish copies of Schedules to the Securities and Exchange Commission upon request.
2.2	First Amendment dated December 28, 2010 to Agreement and Plan of Merger by and between Chemung Financial Corporation and Fort Orange Financial Corp. dated as of October 14, 2010 (included as Appendix A2 to the joint proxy statement/prospectus contained in this Registration Statement).
3.1	Certificate of Incorporation of Chemung Financial Corporation dated December 20, 1984 (as incorporated by reference to Exhibit 3.1 to Registrant's Form 10-K for the year ended December 31, 2007 and filed with the SEC on March 13, 2008).
3.2	Certificate of Amendment to the Certificate of Incorporation of Chemung Financial Corporation, dated March 28, 1988, (as incorporated by reference to Exhibit 3.4 to Registrant's Form 10-K for the year ended December 31, 2007 and filed with the SEC on March 13, 2008).
3.3	Certificate of Amendment to the Certificate of Incorporation of Chemung Financial Corporation, dated May 13, 1998, (as incorporated by reference to Exhibit 3.4 to Registrant's Form 10-K for the year ended December 31, 2005 and filed with the SEC on March 15, 2006.
3.4	Amended and Restated Bylaws of Chemung Financial Corporation, as amended to October 21, 2009 (incorporated by reference to Exhibit 3.1 to Registrant's Form 10-Q for the quarter ended September 30, 2009 and filed with the SEC on November 9, 2009).
4.1	Specimen Stock Certificate of Chemung Financial Corporation (as incorporated by reference to Exhibit 4.1 to Registrant's Form 10-K for the year ended December 31, 2002 and filed with the SEC on March 24, 2003).
5.1	Opinion of Hinman, Howard & Kattell, LLP as to the legality of the securities being issued * (to be filed by amendment) **
8.1	Opinion of Hiscock & Barclay , LLP as to tax matters **
23.1	Consent of Crowe Horwath LLP *
23. 2	Consent of ParenteBeard LLC *
23. 3	Consent of Hinman, Howard & Kattell, LLP (included in Exhibit 5.1)
23.4	Consent of Hiscock & Barclay, LLP (included in Exhibit 8.1)
24.1	Power of Attorney of Directors and Officers of Chemung Financial Corporation**
99.1	Form of Proxy Card of Chemung Financial Corporation **

99.2 Form of Proxy Card of Fort Orange Financial Corp. **

99.3 Fairness Opinion of FinPro, Inc. (included as Appendix E to the joint proxy statement/prospectus contained in this Registration Statement).

99.4 Fairness Opinion of Sandler O'Neill & Partners, L.P. (included as Appendix F to this joint proxy statement/prospectus contained in this Registration Statement).

99.5 Consent of FinPro, Inc. *

99.6 Consent of Sandler O'Neill & Partners, L.P. *

99.7 Voting Agreement executed by Peter D. Cureau dated as of October 14, 2010 (included as Appendix B to the joint proxy statement/prospectus contained in this Registration Statement).

99.8 Voting and Non-Competition Agreement executed by Fort Orange Financial Corp. directors (other than Peter D. Cureau (included as Appendix C to the joint proxy statement/prospectus contained in this Registration Statement).

99.9 Agreement by Peter D. Cureau dated as of October 20, 2010 and First Amendment to the Agreement by Peter D. Cureau dated December 28, 2010 (included as Appendix D to the joint proxy statement/prospectus contained in this Registration Statement).

99.10 Executive Employment Agreement between Capital Bank & Trust Company and Steven J. Owens, with First Amendment thereto both dated as of January 1, 2011

* Previously filed.
** Filed herewith.