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SALISBURY BANCORP INC
Form 8-K/A
November 24, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 10, 2004.

SALISBURY BANCORP, INC. .
(Exact name of registrant as specified in charter)

Connecticut

0-24751

06-1514263

(State or other jurisdiction of incorporation) (Commission File Number) (IRS Employer Identif

5 Bissell Street, Lakeville, Connecticut

06039-1868

(Address of principal executive offices)

(zip code)

Registrant's telephone number, including area code: (860) 435-9801

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K is intended to simultaneously satisfy the filing obligations of the registrant under any of the following provisions (see General Instructions A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 C.F.R. 230.425)

Soliciting material pursuant to Rule 14a-2 under the Exchange Act (17 C.F.R. 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 C.F.R. 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 C.F.R. 240.13e-4(c))

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Form 8-K, Current Report
Salisbury Bancorp, Inc.

On September 13, 2004, Salisbury Bancorp, Inc. (the "Company") filed a Form 8-K (the "Form 8-K") to report the completion of the merger of Canaan National Bancorp, Inc. ("Canaan") with and into the Company pursuant to the Agreement and Plan of Merger by and between the Company and Canaan (the "Merger Agreement"), without the financial information required by Item 9.01 of Form 8-K. Accordingly, the Company is filing this Form 8-K/A to include that financial information.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

The financial statements of Canaan required by this Item for the periods specified in Rule 3-05(b) of Regulation S-X are attached to this amendment to the Form 8-K.

(b) Pro Forma Financial Information.

The pro forma financial information required pursuant to Article 11 of Regulation S-X are attached to this amendment to the Form 8-K.

(c) Not Applicable.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereto duly authorized.

Dated: November 24, 2004

SALISBURY BANCORP, INC.

By: /s/ John F. Foley

John F. Foley
Chief Financial Officer

CANAAN NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

June 30,
2004

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(unaudited)

ASSETS

| | |
|--|------------|
| Cash and due from banks | \$ 2,577 |
| Interest bearing demand deposits with other banks | 71 |
| Federal Home Loan Bank overnight deposit | 225 |
| | ----- |
| Cash and cash equivalents | 2,873 |
| Investments in available-for-sale securities (at fair value) | 43,861 |
| Investments in held-to-maturity securities (fair values of \$796 as of June 30, 2004 and \$803 as of December 31, 2003) | 753 |
| Federal Reserve Bank stock, at cost | 56 |
| Federal Home Loan Bank stock, at cost | 1,291 |
| Loans, net of allowance for loan losses of \$693 as of June 30, 2004 and \$698 as of December 31, 2003 | 54,406 |
| Loans held-for-sale | 0 |
| Premises and equipment | 1,071 |
| Accrued interest receivable | 535 |
| Other assets | 626 |
| | ----- |
| Total assets | \$ 105,472 |
| | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:

| | |
|---------------------------------|-----------|
| Noninterest-bearing | \$ 15,396 |
| Interest-bearing | 59,489 |
| | ----- |
| Total deposits | 74,885 |
| Federal Home Loan Bank advances | 22,143 |
| Other borrowed funds | 75 |
| Other liabilities | 173 |
| | ----- |
| Total liabilities | 97,276 |
| | ----- |

Stockholders' equity:

| | |
|---|------------|
| Common stock, par value \$.01 per share; authorized 300,000 shares; issued and outstanding, 177,418 shares as of June 30, 2004 and 177,418 shares as of December 31, 2003 | 2 |
| Paid-in capital | 1,071 |
| Retained earnings | 8,087 |
| Accumulated other comprehensive loss | (964) |
| | ----- |
| Total stockholders' equity | 8,196 |
| | ----- |
| Total liabilities and stockholders' equity | \$ 105,472 |
| | ===== |

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CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(in thousands except per share data)

| | Six months ended | | Three mont |
|---|------------------|---------|------------|
| | June 30, | | June |
| | 2003 | 2004 | 2003 |
| Interest and dividend income: | | | |
| Interest and fees on loans | \$1,776 | \$2,102 | \$ 819 |
| Interest on debt securities: | | | |
| Taxable | 498 | 443 | 243 |
| Tax-exempt | 233 | 180 | 117 |
| Dividends | 54 | 76 | 22 |
| Other interest | 1 | 8 | 0 |
| Total interest and dividend income | 2,562 | 2,809 | 1,201 |
| Interest expense: | | | |
| Interest on deposits | 462 | 613 | 229 |
| Interest on Federal Home Loan Bank advances | 514 | 535 | 250 |
| Total interest expense | 976 | 1,148 | 479 |
| Net interest and dividend income | 1,586 | 1,161 | 722 |
| Provision for loan losses | 6 | 9 | 3 |
| Net interest and dividend income after provision for loan losses | 1,580 | 1,652 | 719 |
| Other income: | | | |
| Service charges on deposit accounts | 139 | 151 | 64 |
| Gain on sales of available-for-sale securities, net | 20 | 0 | 20 |
| Gain on sales of loans, net | 92 | 139 | 71 |
| Servicing income | 42 | 25 | 18 |
| Other income | 41 | 32 | 31 |
| Total other income | 334 | 347 | 204 |
| Other expense: | | | |
| Salaries and employee benefits | 799 | 823 | 398 |
| Occupancy expense | 98 | 97 | 47 |
| Equipment expense | 131 | 145 | 66 |
| Data processing | 79 | 89 | 38 |
| Professional fees | 72 | 73 | 61 |
| Other expense | 269 | 333 | 117 |
| Total other expense | 1,448 | 1,560 | 727 |
| Income before income taxes | 466 | 439 | 196 |
| Income taxes | 133 | 90 | 58 |
| Net income | \$ 333 | \$ 349 | \$ 138 |

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| | | | |
|--|---------|---------|--------|
| | ===== | ===== | ===== |
| Earnings per common share | \$ 1.88 | \$ 1.99 | \$.78 |
| Earnings per common share, assuming dilution | 1.81 | 1.95 | \$.75 |

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CANAAN NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended June 30, 2004 and 2003

(Unaudited)
(in thousands)

| | 2004 |
|---|---------|
| | ----- |
| Cash flows from operating activities: | |
| Net income | \$ 333 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Amortization of securities, net | (6) |
| Provision for loan losses | 6 |
| Change in unearned income | 0 |
| Net decrease in loans held-for-sale | 0 |
| Depreciation and amortization | 17 |
| Increase in interest receivable | (37) |
| Decrease (increase) in prepaid expenses | 36 |
| Decrease (increase) in other assets | 97 |
| Increase in taxes payable | 78 |
| Decrease in accrued expenses | (14) |
| Decrease in interest payable | (13) |
| Decrease in other liabilities | (13) |
| | ----- |
| Net cash provided by operating activities | 484 |
| | ----- |
| Cash flows from investing activities: | |
| Purchases of available-for-sale securities | (4,814) |
| Proceeds from maturities of available-for-sale securities | 4,367 |
| Proceeds from maturities of held-to-maturity securities | 154 |
| Purchases of Federal Home Loan Bank stock | (41) |
| Loan originations and principal collections, net | 2,277 |
| Recoveries of loans previously charged off | 7 |
| Capital expenditures | (37) |
| | ----- |
| Net cash used in by (provided) investing activities | 1,913 |
| | ----- |

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| | |
|--|----------|
| Cash flows from financing activities: | |
| Net increase in demand deposits, NOW and savings accounts | 1,825 |
| Net decrease increase in time deposits | (1,937) |
| Net increase in short term advances from Federal Home Loan Bank | 3,402 |
| Principal payments on long-term advances from Federal Home Loan Bank | (4,578) |
| Net (decrease) increase in other borrowed funds | (53) |
| Dividends paid | 0 |
| Retirement of shares of common stock | 0 |
| | ----- |
| Net cash provided by (used in) financing activities | (1,341) |
| | ----- |
| Net increase in cash and cash equivalents | 1,056 |
| Cash and cash equivalents at beginning of period | 1,817 |
| | ----- |
| Cash and cash equivalents at end of period | \$ 2,873 |
| | ===== |
| Supplemental disclosures: | |
| Interest paid | \$ 963 |
| Income taxes paid | 190 |

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Salisbury Bancorp, Inc.
and Canaan National Bancorp, Inc.
Unaudited Pro Forma Consolidated Condensed
Combined Balance Sheet as of June 30, 2004
(in thousands)

| | | Historical ----- | |
|-----------------------------------|-------------------------------------|--|-----------------------------------|
| | Salisbury Bancorp, Inc. ----- | Canaan National Bancorp, Inc. ----- | Pro Forma Adjustments ----- |
| ASSETS: | | | |
| Cash and cash equivalents | \$ 9,227 | \$ 2,873 | \$ (6,020) (A) |
| Securities | 157,808 | 45,961 | -- |
| Loans, net | 143,622 | 54,406 | 905 (B) |
| Premises and equipment, net | 3,135 | 1,071 | 1,508 (B) |
| Investment in real estate | 75 | -- | -- |
| Goodwill | 2,358 | -- | 6,400 (C) |
| Core deposit intangible | 698 | -- | 1,190 (B) |
| Other assets | 7,848 | 1,161 | (309) (C) |

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| | | | |
|--|------------|------------|-------------|
| Total assets | \$ 324,771 | \$ 105,472 | \$ 3,674 |
| | ===== | ===== | ===== |
| LIABILITIES AND EQUITY: | | | |
| Deposits | \$ 219,774 | \$ 74,886 | \$ (36) (B) |
| Total borrowings | 75,457 | 22,219 | 618 (B) |
| Other liabilities | 2,302 | 171 | 589 (B) |
| | ----- | ----- | ----- |
| Total liabilities | 297,533 | 97,276 | 1,171 |
| | ----- | ----- | ----- |
| Common Stock | 142 | 2 | 24 (F) |
| Paid-in capital | 2,359 | 1,071 | 9,602 (F) |
| Accumulated other comprehensive loss | (2,442) | (964) | 964 |
| Retained earnings | 27,179 | 8,087 | (8,087) |
| | ----- | ----- | ----- |
| Total shareholders' equity | 27,238 | 8,196 | 2,503 |
| | ----- | ----- | ----- |
| Total liabilities and stockholder's equity | \$ 324,771 | \$ 105,472 | \$ 3,674 |
| | ===== | ===== | ===== |

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Salisbury Bancorp, Inc.
and Canaan National Bancorp, Inc.
Unaudited Pro Forma Consolidated Condensed
Combined Statement of Operations
For the Six Months Ended June 30, 2004
(in thousands except earnings per share)

| | Salisbury Bancorp, Inc. | Canaan National Bancorp, Inc. | Historical ----- Pro Forma Adjustments | P C |
|---|----------------------------|-------------------------------------|---|--------|
| | ----- | ----- | ----- | ----- |
| Interest and dividend income: | | | | |
| Interest and fees on loans | \$ 4,324 | \$ 1,776 | \$ (55) (D) | \$ |
| Investment and mortgage-backed securities | 3,228 | 785 | -- | |
| Federal funds sold | 18 | 1 | -- | |
| | ----- | ----- | ----- | ----- |
| Total interest income | 7,570 | 2,562 | (55) | |
| | ----- | ----- | ----- | ----- |
| Interest expense: | | | | |
| Deposits | 1,216 | 463 | 7 (D) | |
| Federal Home Loan Bank borrowings | 1,326 | 514 | (40) (D) | |
| | ----- | ----- | ----- | ----- |
| Total interest expense | 2,542 | 977 | (33) | |
| | ----- | ----- | ----- | ----- |

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| | | | | |
|--|----------|---------|----------|-------|
| Net interest income | 5,028 | 1,585 | (22) | |
| Provision for loan losses | 120 | 6 | -- | |
| Net interest and dividend income after provision for loan losses | 4,908 | 1,579 | (22) | |
| | ----- | ----- | ---- | ---- |
| Noninterest income: | | | | |
| Service charges checking | 306 | 138 | (17) (E) | |
| FHLB Gain/Prem/CR enhancement | 149 | 62 | | |
| Other income | 1,759 | 134 | (17) (E) | |
| | ----- | ----- | ---- | ---- |
| Total noninterest income | 2,214 | 334 | (34) | |
| | ----- | ----- | ---- | ---- |
| Noninterest expense: | | | | |
| Compensation and benefits | 2,522 | 799 | -- | |
| Total occupancy | 163 | 98 | 19 (D) | |
| Total furniture and equipment | 281 | 130 | -- | |
| Data processing | 300 | 79 | (9) (E) | |
| Insurance | 58 | 9 | (4) (E) | |
| Professional fees | -- | 44 | (28) (E) | |
| Legal | 62 | 29 | (23) (E) | |
| Printing and stationary | 113 | 8 | -- | |
| Amortization of core deposit intangibles . | 34 | -- | 27 (D) | |
| Other expense | 804 | 251 | (42) (E) | |
| | ----- | ----- | ---- | ---- |
| Total noninterest expense | 4,337 | 1,447 | (60) | |
| | ----- | ----- | ---- | ---- |
| Income before income tax expense | 2,785 | 466 | 4 | |
| Income tax expense | 617 | 133 | 1 (D,E) | |
| | ----- | ----- | ---- | ---- |
| Net income | \$ 2,168 | \$ 333 | \$ 3 | \$ |
| | ===== | ===== | ===== | ===== |
| Weighted average shares outstanding | 1,424 | 177 | | |
| Earnings per share (G) | \$ 1.52 | \$ 1.88 | | \$ |

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Salisbury Bancorp, Inc.
 Unaudited Pro Forma Consolidated Condensed
 and Canaan National Bancorp, Inc.
 Combined Statement of Operations
 For the Twelve Months Ended December 31, 2003
 (in thousands except earnings per share)

| | | Historical | |
|---------------|---------------|-------------|--|
| | | ----- | |
| Salisbury | Canaan | | |
| Bancorp, Inc. | National | | |
| ----- | Bancorp, Inc. | Pro Forma | |
| | | Adjustments | |
| | | ----- | |

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| | | | | |
|---|----------|----------|--------------|-------|
| Interest and dividend income: | | | | |
| Interest and fees on loans | \$ 9,226 | \$ 4,048 | \$ (110) (D) | \$ |
| Investment and mortgage-backed securities | 6,385 | 1,442 | -- | |
| Federal funds sold | 38 | 16 | -- | |
| | ----- | ----- | ----- | ----- |
| Total interest and dividend income | 15,650 | 5,506 | (110) | |
| | ----- | ----- | ----- | ----- |
| Interest expense: | | | | |
| Deposits | 2,866 | 1,129 | 15 (D) | |
| Federal Home Loan Bank borrowings | 2,747 | 1,072 | (80) (D) | |
| | ----- | ----- | ----- | ----- |
| Total interest expense | 5,613 | 2,201 | (65) | |
| | ----- | ----- | ----- | ----- |
| Net interest and dividend income | 10,036 | 3,305 | (45) | |
| Provision for loan losses | 313 | 36 | -- | |
| | ----- | ----- | ----- | ----- |
| Net interest and dividend income after provision for loan losses | 9,724 | 3,269 | (45) | |
| | ----- | ----- | ----- | ----- |
| Noninterest income: | | | | |
| Service charges checking | 560 | 336 | (35) (E) | |
| FHLB Gain/Prem/CR enhancement | 262 | 627 | -- | |
| Other fees | 3,162 | 89 | (19) (E) | |
| | ----- | ----- | ----- | ----- |
| Total noninterest income | 3,984 | 1,052 | (54) | |
| | ----- | ----- | ----- | ----- |
| Noninterest expense: | | | | |
| Compensation and benefits | 4,834 | 1,696 | -- | |
| Total occupancy | 359 | 200 | 38 (D) | |
| Total furniture and equipment | 579 | 276 | -- | |
| Data processing | 575 | 329 | (39) (E) | |
| Insurance | 115 | 27 | (14) (E) | |
| Professional fees | -- | 152 | (86) (E) | |
| Legal | 128 | 137 | (125) (E) | |
| Printing and stationary | 184 | 45 | -- | |
| Amortization of core deposit intangibles . | 68 | -- | 54 (D) | |
| Other expense | 1,757 | 422 | (83) (E) | |
| | ----- | ----- | ----- | ----- |
| Total noninterest expense | 8,600 | 3,284 | (255) | |
| | ----- | ----- | ----- | ----- |
| Income before income tax expense | 5,108 | 1,037 | 156 | |
| Income tax expense | 1,268 | 311 | 39 (D,E) | |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 3,840 | \$ 726 | \$ 117 | \$ |
| | ===== | ===== | ===== | ===== |
| | | | | |
| Weighted average shares outstanding | 1,424 | 177 | | |
| Earnings per share (G) | \$ 2.70 | \$ 4.09 | | \$ |

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Notes to the Unaudited Pro Forma Consolidated Condensed
Combined Financial Statements

A. Basis of Presentation

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The pro forma information presented is not necessarily indicative of the results of operations or the combined financial position or results of operation that would have resulted had the merger of Canaan National Bancorp, Inc. with and into Salisbury Bancorp, Inc. (the "Merger") been consummated as of or for the periods indicated, nor is it necessarily indicative of the results of operations in future periods or the future financial position of the combined company.

The unaudited pro forma consolidated financial information reflects the application of the purchase method of accounting. Under this method, the assets and liabilities of Canaan National Bancorp, Inc. were recorded at their estimated fair values at the effective time, September 10, 2004. As described in the accompanying notes, the fair values of the assets and liabilities of Canaan National Bancorp, Inc. have been combined with the historical carrying amounts of the assets and liabilities of Salisbury Bancorp, Inc. and subsidiaries.

The unaudited pro forma consolidated condensed combined balance sheet as of June 30, 2004 gives effect to the Merger as if the Merger had been consummated on June 30, 2004. The unaudited pro forma consolidated condensed combined statements of operations give effect to the Merger as if the Merger had been consummated at the beginning of the period presented. Certain reclassifications have been included in the unaudited pro forma consolidated condensed combined balance sheet and unaudited pro forma consolidated condensed combined statements of operations to conform the presentation.

Assumptions relating to the pro forma adjustments set forth in the unaudited pro forma consolidated condensed combined financial statements are summarized as follows:

Estimated fair values for the assets and liabilities of Canaan National Bancorp, Inc. were obtained as follows:

Cash and Cash Equivalents. The carrying amounts of cash and cash equivalents approximate their fair value. Cash paid to Canaan National Bancorp, Inc. shareholders totaled \$6,020,000.

Investment and Mortgage-Backed Securities. Fair values for securities are based on quoted market prices.

Stock in Federal Home Loan Bank and Other Restricted Equity Securities. No ready market exists for these stocks and they have no quoted market value; however, redemption of these stocks has historically been at par value. Accordingly, the carrying amount is deemed to be a reasonable estimate of fair value.

Loans. Fair values for loans held for investment (included in net loans) and other loans are estimated by segregating the portfolio by type of loan and discounting scheduled cash flows using interest rates currently being offered for loans with similar terms. A prepayment assumption is used as an estimate of the portion of loans that will be repaid prior to their scheduled maturity. The allowance for loan losses as recorded is deemed to be a reasonable estimate of the credit adjustment.

Office Properties and Equipment. The fair value of office properties is based on an independent appraisal. The book value of equipment is deemed to be a reasonable estimate of fair value.

Deposits. The fair values disclosed for demand deposits (e.g.,

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interest and noninterest checking, passbook savings and market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificate accounts are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on certificate accounts.

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Identifiable Intangible Assets. A fair value for the core deposit intangible asset related to Canaan National Bancorp, Inc. was estimated by calculating a 2.39% premium on core deposits of \$49.7 million. The core deposit intangible is being amortized over 12.50 years.

Other Assets and Other Liabilities. Because these financial instruments will typically be received or paid within three months, the carrying amounts of such instruments are deemed to be a reasonable estimate of fair value.

The premium on loans will be amortized to interest income over 4.95 years so as to approximate a constant yield to maturity. The fair market value adjustment for deposits will be accreted to interest expense over 1.49 years so as to approximate a constant yield to maturity. The increase in premises to fair value will be depreciated over a 40 year period as an increase to expense.

B. Purchase Accounting Adjustments

Purchase accounting adjustments are follows (in thousands):

| | |
|---|-----------|
| Increase value of building..... | \$ 1,508 |
| Increase value of loans | 905 |
| Decrease liability for term deposits | 36 |
| Increase borrowing | (618) |
| Core deposit intangible recorded | 1,190 |
| Deferred tax liability | (589) |
| Total..... | 2,432 |
| Equity of Canaan National Bancorp, Inc. (6-30-04) | 8,196 |
| Total fair value of net assets acquired..... | \$ 10,628 |

Refinements to the foregoing amounts may occur subsequent to the completion of the Merger.

C. Calculation of Goodwill

Excess of cost over the fair value of net assets acquired in the Merger was calculated as follows (in thousands):

| | |
|--|----------|
| Cost..... | \$16,719 |
| Business combination costs..... | 309 |
| Total cost..... | 17,028 |
| Fair value of net assets acquired..... | (10,628) |

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Total excess of cost over the fair value of net assets acquired. \$ 6,400

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D. Pro Forma Income Statement Adjustments

Pro forma income statement adjustments that were calculated for the Merger are as follows (in thousands):

| | For the Year Ended Dec. 31, 2003 Income (Expense) | For the Six Months Ended June 30, 2004 Income (Expense) |
|---|--|--|
| | ----- | ----- |
| Amortization of premium on borrowings | \$ 80 | \$ 40 |
| Amortization of premium on loans receivable | (110) | (55) |
| Depreciation of fair value adjustment for building | (38) | (19) |
| Amortization of fair value adjustment for term deposits . | (15) | (7) |
| Income tax expense | 34 | 17 |
| Amortization of core deposit intangible asset | (54) | (27) |
| | ----- | ----- |
| Total adjustments | \$ (103) | \$ (51) |
| | ===== | ===== |

Income tax expense is adjusted using a combined effective tax rate of 25%.

The following table summarizes the estimated net future impact of the amortization of the purchase accounting adjustments made in connection with the Merger on our results of operations (in thousands):

| Fiscal Years Ended December 31, ----- | Net Increase (Decrease) In Net Income of Amortized Amounts ----- |
|---|---|
| 2004 9/10-12/31.. | \$ (37) |
| 2005..... | (122) |
| 2006..... | (122) |
| 2007..... | (141) |
| 2008..... | (92) |
| 2009 and thereafter | (1,625) |

E. Other Income Statement Adjustments

For the Year
Ended Dec. 31,
2003

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| | ----- |
|---|---------------------|
| | Increase (decrease) |
| | in net in |
| | (in thousa |
| Eliminate service charge income on CNB checking accounts (recurring) | (35) |
| Eliminate CNB Insurance Agency (recurring) | (19) |
| Eliminate CNB Internet banking expense (recurring) | 39 |
| New Surety Bond expense (approximately 50% of CNBs cost) (recurring) | 14 |
| Eliminate CNB merger expenses for additional auditing fees, (non-recurring) | 86 |
| Eliminate CNB merger related legal expenses (non-recurring) | 125 |
| Eliminate other expenses which no longer apply: | |
| OCC assessment | 45 |
| Armored car service | 3 |
| Compliance expense (net) | 14 |
| Loan review | 21 |
| Less income tax effect | (73) |
| | --- |
| Total | 220 |
| | === |

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F. Issuance of Shares to Salisbury Bancorp, Inc.

Based on the average closing price of common stock of \$41.55 per share, the issuance of 257,483 shares of common stock of Salisbury Bancorp, Inc., \$.10 par value, is reflected by an increase of \$25,748 to common stock and an increase of \$10,672,670 to paid-in capital. As part of the Merger, equity accounts of Canaan National Bancorp, Inc. are eliminated.

G. Earnings Per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Pro forma combined earnings per share reflects the additional weighted average shares of Canaan National Bancorp, Inc. times 1.3371, (representing the number of shares of Salisbury Bancorp, Inc. issued for each share of Canaan Bancorp, Inc.), plus 21,000 shares issued upon exercise of the remaining Canaan stock options.

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