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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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