

BAR HARBOR BANKSHARES  
Form DEF 14A  
March 30, 2005

BAR HARBOR BANKSHARES  
82 Main Street  
Bar Harbor, ME 04609

March 30, 2005

Dear Stockholder:

The **2005 Annual Meeting of Bar Harbor Bankshares will be held at 11:00 a.m. EDT on Tuesday, May 17, 2005** at the Bar Harbor Club located at 111 West Street in Bar Harbor, Maine. Our Directors and Officers join me in inviting you to attend this meeting and the reception following.

Enclosed are the Clerk's official *Notice of Annual Meeting*, a *Proxy Statement*, and the *Form of Proxy*. Please sign the *Form of Proxy* and return it in the envelope provided so that your shares will be voted at the Annual Meeting if you are unable to attend. Please also complete the reception postcard and mail it separately from the *Form of Proxy* if you will be attending the reception.

We look forward to seeing you on May 17th. Please join us for the reception even if you are unable to attend the business meeting.

Very  
truly  
yours,

/s/  
Joseph  
M.  
Murphy

Joseph  
M.  
Murphy  
President  
and  
Chief  
Executive  
Officer

Enclosures

IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY

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Each stockholder is urged to fill in, date and sign the enclosed form of proxy and mail it in the envelope provided.

A stockholder who executes the Proxy may, prior to its use, revoke it by written instrument, by a subsequently executed Proxy or, if attending the Meeting, by notifying the Clerk or by giving notice at the Meeting.

BAR HARBOR BANKSHARES

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD MAY 17, 2005

Notice is hereby given that the **Annual Meeting of the Stockholders of Bar Harbor Bankshares** will be held at the Bar Harbor Club at 111 West Street in Bar Harbor, Maine on **Tuesday, May 17, 2005 at 11:00 a.m. EDT** to consider and act upon the following proposals.

1. To elect three (3) persons to serve as Directors for a term of three years and to elect one (1) person to serve as Director for a term of one year.
  
2. To set the number of directors for the ensuing year at 13.
  
3. To transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

Stockholders of record as of the close of business on March 29, 2005 will be entitled to notice of and to vote at the meeting.

The Board of Directors unanimously recommends that you vote "FOR" each of the four nominees as directors on the Company's Board of Directors and "FOR" setting the number of directors for the ensuing year at 13.

The Board of Directors requests that you complete, sign, and date the enclosed Proxy Card and mail it promptly in the enclosed postage-paid envelope. Any proxy that you deliver may be revoked prior to the Annual Meeting in writing delivered to the Company, Attention: Marsha C. Sawyer, Clerk, 82 Main Street, Bar Harbor, Maine 04609 stating that your proxy is revoked or by delivering a subsequently dated proxy. Shareholders of record of the Company's common stock who attend the Annual Meeting may vote in person, even if they have previously delivered a signed Proxy Card.

By Order of the Board of Directors

Marsha C. Sawyer, Clerk

BAR HARBOR BANKSHARES  
82 Main Street  
Bar Harbor, ME 04609

ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD TUESDAY, MAY 17, 2005

PROXY STATEMENT

This Proxy Statement is furnished to the stockholders of Bar Harbor Bankshares ("the Company") in connection with the solicitation of proxies on behalf of the Board of Directors for use at the Annual Meeting of Stockholders ("the Meeting"). The Meeting will be held on Tuesday, May 17, 2005 at 11:00 a.m. EDT at the Bar Harbor Club located at 111 West Street in Bar Harbor, Maine. The official *Notice of the Annual Meeting of Stockholders* accompanies this Statement. A *Form of Proxy* for use at the meeting and a return envelope for the proxy are enclosed. A stockholder who executes the proxy may, prior to its use, revoke it by written instrument, by a subsequently executed proxy or, if attending the Meeting, by notifying the Clerk or by giving notice at the Meeting. This Proxy Statement and the enclosed Form of Proxy will be mailed to the stockholders of the Company on or about April 7, 2005.

**Proxies are being solicited by the Board of Directors of the Company, ("the Board"), principally through the mail.** The Board of Directors and Management of the Company may also solicit proxies personally, or by telephone, e-mail, or facsimile transmission. The entire expense of solicitation, including costs of preparing, assembling, and mailing the proxy material will be borne by the Company. These expenses are not expected to exceed the amount normally expended for an annual meeting at which directors will be elected.

Unless contrary instructions are specified, if the enclosed proxy is executed and returned (and not revoked) prior to the Annual Meeting, the shares of common stock of the Company represented thereby will be voted (1) **FOR** the election of the three persons nominated as Directors by the Board of Directors for a term of three years and the election of one person nominated as Director by the Board of Directors for a term of one year; and (2) **FOR** setting the number of Directors at 13, and (3) to transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

**VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF**

As of March 29, 2005 (the "Record Date"), the Company had outstanding 3,078,556 shares of its common stock ("the Common Stock"), par value \$2 per share, each of which is entitled to one vote upon each matter presented at the Meeting. Only stockholders of record at the close of business on the Record Date are entitled to vote at the Meeting. The presence at the Meeting, either in person or by proxy, of the holders of not less than a majority of the shares entitled to vote at any meeting will constitute a quorum. Assuming a quorum is present, action may be taken on any matter considered by the holders of a majority of the shares present and voting. Abstentions and shares otherwise not voting will not be deemed present and voting. Stockholders who are present will have an opportunity to vote on each matter brought before the Meeting.

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The following table sets forth information with respect to the beneficial ownership of the Company's Common Stock as of the Record Date by: (i) each person or entity known by the Company to own beneficially more than five percent (5%) of the outstanding Common Stock, (ii) each current director of the Company and each nominee for director on the Company's Board of Directors, (iii) the Company's named executive officers (as defined on page 12 of this Proxy under the heading "Compensation of Directors and Executive Officers"), and (iv) all executive officers and directors as a group.

| Name of Beneficial Owner  | Title of Class | Amount of Beneficial Ownership <sup>1</sup> | Percent of Class |
|---|----------------|---|------------------|
| <b>5% or more beneficial owner</b>  |                |   |                  |
| John Sheldon Clark<br>1633 Broadway, 30 <sup>th</sup> Floor<br>New York, NY 10019 | Common         | 162,156 <sup>2</sup>                        | 5.27%            |
| <b>Directors, Nominees and Named Executive Officers:</b>                          |                |   |                  |
| Robert C. Carter  | Common         | 1,400                                       | *                |
| Thomas A. Colwell   | Common         | 4,966                                       | *                |
| Peter Dodge   | Common         | 4,260                                       | *                |
| Martha T. Dudman  | Common         | 518   | *                |
| Dwight L. Eaton   | Common         | 9,937 <sup>3,5</sup>                        | *                |
| Cooper F. Friend  | Common         | 4,708                                       | *                |
| Daniel A. Hurley, III   | Common         | 1,013 <sup>5</sup>                          | *                |
| John P. McCurdy   | Common         | 6,000                                       | *                |
| Joseph M. Murphy  | Common         | 60,382 <sup>5</sup>                         | 1.96             |
| Robert M. Phillips  | Common         | 1,500 <sup>4</sup>                          | *                |
| Dean S. Read  | Common         | 22,287 <sup>5</sup>                         | *                |
| Constance C. Shea   | Common         | 600   | *                |
| Gerald Shencavitz   | Common         | 11,091 <sup>5</sup>                         | *                |
| Kenneth E. Smith  | Common         | 400   | *                |
| Scott G. Toothaker  | Common         | 0 <sup>6</sup>                              | *                |
| David B. Woodside   | Common         | 500   | *                |
| Total Ownership of all nominees, continuing                                       |                | 160,922 <sup>6</sup>                        | 5.23%            |

Directors, and executive officers of the Company as a group (16 persons)

<sup>1</sup>The number of shares beneficially owned by the persons set forth above is determined under rules under Section 13 of the Exchange Act, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, an individual is considered to beneficially own any shares of Common Stock if he or she directly or indirectly has or shares, (i) voting power, which includes the power to vote or to direct the voting of the shares, or (ii) investment power, which includes the power to dispose or direct the disposition of the shares. Unless otherwise indicated, an individual has sole voting power and sole investment power with respect to the indicated shares. All individual holdings amounting to less than 1% of issued and outstanding Common Stock are marked with an (\*)

<sup>2</sup>Includes 2,000 shares beneficially owned by Mr. Clark's spouse over which Mr. Clark has shared voting and dispositive powers. This figure also includes 84,566 shares held by trusts for which Mr. Clark serves as the sole trustee.

<sup>3</sup>Includes 300 shares over which voting and dispositive power are shared jointly with Mr. Eaton's spouse.

<sup>4</sup>Includes 500 shares over which voting and dispositive power are shared jointly with Mr. Phillips' spouse.

<sup>5</sup>Includes shares over which present and former executives have voting power under our 401(k) Plan and options to purchase shares of common stock granted pursuant to our stock option plan which are exercisable within 60 days of March 29, 2005, as follows:

|                       | <u>401K Plan</u> | <u>Exercisable<br/>Options</u> |
|-----------------------|------------------|--------------------------------|
| Dean Read             | 1,387            | 14,900                         |
| Dwight L. Eaton       | 9,037            | -0-                            |
| Daniel A. Hurley, III | 13               | -0-                            |
| Joseph M. Murphy      | 15,382           | 45,000                         |
| Gerald Shencavitz     | 1,259            | 9,432                          |

<sup>6</sup>**Total Indirect Beneficial ownership includes, 31,360 shares** (1.02%) of the Common Stock held by two trusts, which, for purposes of voting, are allocated equally among the directors present at the Annual Stockholder's meeting under the terms of the respective trust instruments. No director has any other beneficial interest in these shares. **Ownership figures for directors and nominees do not include 500 directors' qualifying shares owned by each person named.** The information provided is based on the records of the Company and on information furnished by the persons listed.

The Company is not aware of any arrangement, which could, at a subsequent date, result in a change in control of the Company.

#### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers, directors, and persons who own more than 10% of a registered class of the Company's equity securities (collectively "Section 16 Persons") to file initial reports of ownership and reports of changes of ownership with the U.S. Securities and Exchange Commission (the "Commission") and the American Stock Exchange ("AMEX"). Section 16 Persons are required by Commission regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on review of such reports provided to the Company and written representations that no other reports were required during the period of January 1, 2004 through the Record Date, all Section 16(a) filing requirements applicable to Section 16 Persons were properly met, except as follows:

(a) On November 10, 2004, Mr. Gregory Dalton, a Senior Vice President of Bar Harbor Bank & Trust exercised his vested purchase options with regard to 975 shares of Common Stock. A Form 4 was not filed timely reflecting this transaction until November 17, 2004.

(b) Thomas A. Colwell, Chairman of the Board, participated in a Stock Dividend Reinvestment Program for the year ended December 31, 2004. A Form 5 due on February 14, 2005 reporting the 31 shares purchased under this program was not filed until March 9, 2005.

(c) On April 2, 2003, Ms. Constance Shea's spouse, Robert Shea, purchased 100 shares for which timely reporting did not occur. On February 20, 2004, a Form 5 was filed reflecting his correct ownership.

DIRECTORS AND EXECUTIVE OFFICERS

Directors and Nominees:

Proposal I - Election of Directors

At the Annual Meeting of the Stockholders, three (3) directors will be elected to serve until the 2008 Annual Meeting of the Stockholders and one director will be elected to serve until the 2006 Annual Meeting of the Stockholders and until each director's successor is elected and qualified. Director Eaton has been nominated for a one-year term. The Company's Bylaws require that directors be elected for a term of at least three (3) years or such shorter term as may be necessary to comply with the maximum age restrictions set forth in the Bylaws. Mr. Eaton's nomination for a term of one year is due to this age limitation set forth in the Bylaws. Each nominee has consented to serve and to the use of his or her name in this Proxy. All nominees currently serve on the Board of the Company.

The Board has determined that the director-nominees and a majority of the continuing directors are "independent directors" as required in accordance with applicable laws, regulations, and AMEX listing requirements. The exception is Director Murphy, who serves as President and Chief Executive Officer of the Company. Director Murphy does not serve as a voting member of the Audit, Compensation and Human Resources, or Governance Committees.

The Proxies will be voted, unless authority to do so is expressly withheld, in favor of the four nominees nominated by the Board of Directors. The Board of Directors recommends voting "**FOR**" the election of each nominee as a director of the Company.

**Proposal II-Setting the Number of Directors at 13**

The Company's Board of Directors currently consists of 13 members. The Board of Directors recommends the number of Company directors for the coming year be set at thirteen (13). The Bylaws of the Company provide for no fewer than 9 or more than 27 directors, with directors serving *staggered terms* of three years. The Board of Directors recommends that you vote "**FOR**" setting the number of Directors for the ensuing year at 13.

The following table sets forth for each nominee for election as a director, their name, age, and positions with the Company or its subsidiaries (i.e. Bar Harbor Bank & Trust and Bar Harbor Trust Services).

NOMINEES

| Name              | Age | Year First Elected | Current Term to Expire | Position with the Company | Positions with Subsidiaries  |
|-------------------|-----|--------------------|------------------------|---------------------------|--|
| Thomas A. Colwell | 60  | 1991               | 2008                   | Chairman and Director     | Director, Bar Harbor Bank & Trust since 1991.<br>Director of Bar Harbor Trust Services since 2004. |

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|                   |    |      |      |          |  |
|-------------------|----|------|------|----------|--|
| Martha T. Dudman  | 53 | 2003 | 2008 | Director | Director, Bar Harbor Bank & Trust since 2003.<br>Director of Bar Harbor Trust Services since 2003. |
| Dwight L. Eaton   | 69 | 1988 | 2006 | Director | Director, Bar Harbor Bank & Trust since 1988.<br>Director of Bar Harbor Trust Services since 2000. |
| David B. Woodside | 53 | 2003 | 2008 | Director | Director, Bar Harbor Bank & Trust since 2003.  |

Set forth below is a list of the Company's continuing Directors not standing for election to the Board of Directors at this year's Annual Meeting, including their age and positions with the Company and its subsidiaries (i.e. Bar Harbor Bank & Trust and Bar Harbor Trust Services) each as of the Record Date.

**CONTINUING DIRECTORS**

**Terms to Expire in 2006**

| Name               | Age | Year First Elected Director | Current Term to Expire | Position with the Company | Positions with Subsidiaries  |
|--------------------|-----|-----------------------------|------------------------|---------------------------|--|
| Robert C. Carter   | 62  | 2003                        | 2006                   | Director                  | Director, Bar Harbor Bank & Trust since 1996.<br>Director of Bar Harbor Trust Services since 2004. |
| Peter Dodge        | 61  | 2003                        | 2006                   | Director                  | Director, Bar Harbor Bank & Trust since 1987.  |
| John P. McCurdy    | 74  | 2003                        | 2006                   | Director                  | Director, Bar Harbor Bank & Trust since 1979.  |
| Scott G. Toothaker | 42  | 2003                        | 2006                   | Director                  | Director, Bar Harbor Bank & Trust since 2003.  |

**Terms to Expire in 2007**

| Name             | Age | Year First Elected Director | Current Term to Expire | Position with the Company   | Positions with Subsidiaries  |
|------------------|-----|-----------------------------|------------------------|---|--|
| Joseph M. Murphy | 62  | 2002                        | 2007                   | Director<br>President and Chief Executive Officer of Bar Harbor Bankshares. | Chairperson and Director, Bar Harbor Bank & Trust since 2002.<br>Chief Executive Officer of Bar Harbor Bank & Trust since 2003.<br>President, Bar Harbor Bank & Trust since February 2005. |

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|                    |    |      |      |          |   |
|--------------------|----|------|------|----------|---|
| Robert M. Phillips | 63 | 2003 | 2007 | Director | Director of Bar Harbor Trust Services since 2002.<br>Director, Bar Harbor Bank & Trust since 1993.<br>Director of Bar Harbor Trust Services from 2000 through 2004. |
| Constance C. Shea  | 60 | 2003 | 2007 | Director | Director, Bar Harbor Bank & Trust since 2001.   |
| Kenneth E. Smith   | 51 | 2004 | 2007 | Director | Director, Bar Harbor Bank & Trust since 2004.<br>Director, Bar Harbor Trust Services since 2004.  |

**Executive Officers:**

Set forth below is a list of the Company's executive officers, including their age and positions with the Company and its subsidiaries (i.e. Bar Harbor Bank & Trust and Bar Harbor Trust Services) each as of the Record Date:

| Name                  | Age | Year First Elected as Officer | Positions with the Company  | Positions with Subsidiaries   |
|-----------------------|-----|-------------------------------|---|---|
| Joseph M. Murphy      | 62  | 2002                          | Director, President and Chief Executive Officer.                      | Chairperson and Director, Bar Harbor Bank & Trust since 2002.<br>Chief Executive Officer of Bar Harbor Bank & Trust since 2003.<br>President of Bar Harbor Bank & Trust since February 2005.<br>Director of Bar Harbor Trust Services since 2002. |
| Daniel A. Hurley, III | 52  | 2004                          | N/A   | President, Bar Harbor Trust Services.<br>Senior Vice President, Bar Harbor Bank & Trust since 2004.   |
| Gerald Shencavitz     | 51  | 2001                          | Chief Financial Officer and Treasurer of the Company since June 2001. | Chief Financial Officer, Senior Vice President, and Chief Operating Officer, Bar Harbor Bank & Trust since June 2001.<br>Treasurer, Bar Harbor Trust Services since June, 2001.   |

The Bylaws of the Company provide that the executive officers be elected annually by the Board of Directors and that the President, Chairperson of the Board, Treasurer, and Clerk shall serve at the pleasure of the Board and until their successors have been chosen and qualified. All other officers serve at the pleasure of the Chief Executive Officer. There are no arrangements or understandings between any of the directors, executive officers or any other persons pursuant to which the above directors have been selected as directors, or any of the above officers have been selected as officers. There are no "family relationships" as defined by the Commission, between any director, executive officer, or person nominated or chosen by the Company to become a director or executive officer.

**Business Experience**

The principal occupation and business experience for at least the last five (5) years for each director, nominee, and executive officer is set forth below. None of the organizations discussed below, except for Bar Harbor Bank & Trust, Bar Harbor Trust Services, and the now dissolved BTI Financial Group is affiliated with the Company.



Directors

:

Thomas A. Colwell.

Mr. Colwell of Deer Isle, is President of Colwell Bros., Inc., (lobster pounding) located in Stonington, Maine.

Martha T. Dudman.

Ms. Dudman of Northeast Harbor, Maine, is President of Dudman Communications Corporation, an author, and professional fundraising consultant.

Dwight L. Eaton.

Mr. Eaton of Brooksville, retired in February 2000 as President and Chief Executive Officer of BTI Financial Group. Prior to 2000, Mr. Eaton served as Senior Vice President and Trust Officer of Bar Harbor Bank & Trust.

David B. Woodside.

Mr. Woodside is President and General Manager of Acadia Corporation, a corporation operating a restaurant and gift shops located in Acadia National Park and Bar Harbor, Maine.

Robert C. Carter

. Mr. Carter is owner of the Machias Motor Inn, Machias, Maine.

Peter Dodge.

Mr. Dodge is President and Insurance Agent with Peter Dodge Agency d/b/a Merle B. Grindle Agency and John R. Crooker Agency, insurance and real estate agencies located in Blue Hill and Bucksport, Maine.

John P. McCurdy.

Mr. McCurdy has been retired since 1991. Prior to his retirement he owned and operated McCurdy Fish Company, Lubec, Maine.

Scott G. Toothaker

. Mr. Toothaker is Principal and Vice President of Melanson Heath & Co., PC, a CPA firm with an office located in Ellsworth, Maine.

Joseph M. Murphy.

Mr. Murphy is President and Chief Executive Officer of Bar Harbor Bankshares and Bar Harbor Bank & Trust, and until its dissolution in 2004 President of BTI Financial Group. Prior to February 2002, Mr. Murphy was Executive Vice President, Retail Banking Group for WSFS Financial Corporation from 1996 through 2000 where he was responsible for their retail branching system, small business and consumer lending, marketing and product development, card programs, investment and insurance products, and community relations.

Robert M. Phillips

. Mr. Phillips is a consultant for Cherryfield Foods, Maine Wild Blueberry, and Oxford Foods, food processors with locations in Washington County, Maine.

Constance C. Shea.

Ms. Shea is a Real Estate Broker and an owner in Lynam Real Estate Agency, Bar Harbor, Maine and L.S. Robinson Company, an insurance and real estate company located in Southwest Harbor, Maine. (sale pending).

Kenneth E. Smith.

Mr. Smith is owner and Innkeeper of Manor House Inn since 2003 and former owner of Wonder View Inn, both hospitality facilities located in Bar Harbor, Maine. Mr. Smith also serves as a member of the Bar Harbor Town Council.

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Executive Officers:

Joseph M. Murphy.

For a summary of the business experience of Mr. Murphy, please see the *Directors* section immediately above.

Daniel A. Hurley, III.

Mr. Hurley has served as President of Bar Harbor Trust Services and Senior Vice President of Bar Harbor Bank & Trust since August of 2004. He was formerly Vice President and Senior Trust Officer at Essex Savings Bank where he was responsible for the start up of a Trust Services division and broker-dealer subsidiary. Mr. Hurley has held various positions with increasing responsibilities in the Trust area since 1974.

Gerald Shencavitz.

Mr. Shencavitz has served as Chief Financial Officer and Treasurer of the Company since June 2001 and Chief Financial Officer, Senior Vice President and Chief Operating Officer of Bar Harbor Bank & Trust since 2001. He formerly was a Senior Vice President at Bar Harbor Bank & Trust.

## BOARD OF DIRECTORS AND ITS COMMITTEES

### Board of Directors:

During 2004, a thirteen (13)-member board, a majority of which meets the independence standards established by AMEX, managed the Company. The Board of Directors of the Company held a total of eleven (11) regular meetings, one (1) annual meeting, and one (1) special meeting during 2004. The Bylaws of the Company provide for a minimum of quarterly meetings. Each Director, with the exception of Cooper F. Friend, attended at least 75% of the total number of board and committee meetings that he or

she was eligible to attend.

The Board encourages, but does not require, each Director to attend its Annual Meeting of Stockholders. All of the Board's members except Mr. Friend attended the 2004 Annual Meeting.

Committees:

Executive Committee

The Bylaws of the Company provide that after each Annual Meeting of Directors, the Board shall designate from among its members an Executive Committee with the authority to exercise all the powers of the Board of Directors in regard to ordinary operations of the business of the Company when the Board is not in session, subject to any specific vote of the Board. The Executive Committee for 2004 included Directors Colwell, Dodge, Eaton, Friend, Murphy, Phillips, and Toothaker. Mr. Colwell serves as Chairperson. The Executive Committee held one (1) meeting in 2004.

The Bylaws provide that the Board may elect or appoint such other committees, as it may deem necessary or convenient to the operations of the Company. The Board has appointed a standing Audit Committee, a standing Governance Committee, and a standing Compensation and Human Resources Committee.

*Audit Committee*

The members of the Audit Committee included Directors Colwell, Dudman, Eaton, Shea, Toothaker, and Woodside. Mr. Toothaker serves as Chairperson of the Committee.

The Audit Committee met six (6) times during 2004. See **Appendix A** for Report of Audit Committee.

The Company's Board has determined that the Audit Committee is composed of independent directors, in accordance with applicable AMEX listing requirements as of December 31, 2004. The Audit Committee operates under a written charter, which has been adopted by the Audit Committee and the Company Board. Audit Committee members do not accept any consulting, advisory, or other compensatory fees (except director fees) and are not affiliated with the Company (except as a director) or any of its subsidiaries.

The Audit Committee has the sole authority to appoint and replace the independent auditor, subject to appropriate stockholder ratification. The Audit Committee is responsible for the compensation and oversight of the independent auditor. The independent auditor reports directly to the Audit Committee. The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities with respect to (i) the financial information to be provided to stockholders and the Commission; (ii) the review of quarterly financial statements; (iii) the system of financial controls management has established; and (iv) the internal audit, external audit and loan review processes.

Governance Committee (formerly the Nominating Committee)

The Governance Committee (formerly the Nominating Committee) for 2004 was comprised of Directors Friend, Shea, Phillips, and Dodge. The Governance Committee met six (6) times during 2004. Mr. Friend served as Chairperson of the Committee. The Company Board of Directors has determined that each member of the Governance Committee is independent for purposes of AMEX listing standards.

The Governance Committee is responsible for screening candidates, recommending nominees to the full Board of Directors (including the slate of returning directors) to be elected each year, making recommendations concerning

the size and composition of the Board of Directors, recommending Committee structure and membership, and sponsoring new director orientation and education. The Governance Committee has a written charter, which may be viewed on the Company's general website [www.bhbt.com](http://www.bhbt.com).

The Governance Committee expects to identify nominees to serve as directors of the Company primarily by accepting and considering the suggestions and nominee recommendations made by directors, management, and stockholders. To date the Governance Committee has not engaged any third parties to assist it in identifying candidates for the Board of Directors. The Governance Committee considers among other things the background, business and professional experience (including any requisite financial expertise or other special qualifications), current employment, community service, and other board service of its directors and nominees, as well as racial, ethnic, and gender diversity of the Board as a whole. The Governance Committee generally considers a candidate's qualifications in light of these broad criteria as well as an assessment as to whether the candidate can make decisions on behalf of or while representing the Company in a manner consistent with our stated business goals and objectives. The Governance Committee will also consider the candidate's "independent" status in accordance with applicable regulations and listing standards.

#### Compensation and Human Resources Committee

The Compensation and Human Resources Committee reviews and considers recommendations from management concerning executive compensation policies, employee benefit plans, and salary administration programs, including reviewing annually the performance, total compensation, and recommended adjustments for all executive officers and the executive officers of the Company's subsidiaries. The deliberations of the Compensation and Human Resources Committee are reported to the Board of Directors for review and approval.

The Compensation and Human Resources Committee is comprised of Company Directors Dodge, McCurdy, Phillips, Shea, Smith, and Woodside. Mr. Phillips serves as Chairperson of the Committee. The Company's and Bank's President and Chief Executive Officer, Murphy, serves on the Committee in a non-voting, ex-officio capacity, as does the Bank's Human Resource Officer, Marsha C. Sawyer. All voting members of the Compensation Committee are independent for purposes of AMEX listing standards. The Compensation and Human Resources Committee met three (3) times during 2004.

#### COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth for each of the Company's last three fiscal years, the annual compensation awarded to, earned by or paid to the Company's Chief Executive Officer and the other executive officers who earned in excess of \$100,000 for the year ending December 31, 2004 (the "named executive officers"). The Company or the subsidiary by which he was employed paid compensation for each named executive officer.

Summary Compensation Table

| Name and<br>Principal Positions        | Year | Salary <sup>1</sup><br>(\$) | Bonus <sup>2</sup><br>(\$) | Other Annual<br>Compensation <sup>3</sup><br>(\$) | Restricted<br>Stock<br>Award<br>(\$) | Securities<br>Underlying<br>Options/SARs<br>(#) | LTIP<br>Payouts | All Other<br>Compensation<br>(\$) <sup>4</sup> |
|--|------|-----------------------------|----------------------------|---|--------------------------------------|---|-----------------|--|
| Joseph M. Murphy,<br>President And CEO | 2004 | 230,000                     | 24,035                     | 2,238   | N/A                                  | 0   | N/A             | 143,565  |
|  | 2003 | 221,158                     | 26,400                     | 1,796   | N/A                                  | 0   | N/A             | 224,050  |

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|   |      |         |        |        |     |        |     |         |
|---|------|---------|--------|--------|-----|--------|-----|---------|
| of Bar Harbor Bankshares and CEO of Bar Harbor Bank & Trust | 2002 | 191,388 | 7,140  | 48,872 | N/A | 90,000 | N/A | n/a     |
| Dean S. Read*   | 2004 | 185,000 | 19,592 | 2,332  | N/A | 0      | N/A | 136,033 |
| Former President, Bar Harbor Bank & Trust Company           | 2003 | 185,901 | 21,886 | 2,322  | N/A | 0      | N/A | (2,810) |
|   | 2002 | 182,588 | 7,400  | 2,412  | N/A | 0      | N/A | 285,081 |
| Gerald Shencavitz   | 2004 | 134,000 | 14,003 | 1,242  | N/A | 0      | N/A | 36,517  |
| CFO and Treasurer, Bar Harbor Bankshares                    | 2003 | 123,704 | 14,666 | 1,242  | N/A | 5,000  | N/A | 32,256  |
|   | 2002 | 119,525 | 4,495  | 841    | N/A | 5,000  | N/A | 42,827  |

\* Mr. Read resigned as President of Bar Harbor Bank & Trust effective February 25, 2005. However, Mr. Read's compensation information is included here because he was a named executive officer throughout fiscal year 2004

1

Included in base salary amounts disclosed above for each named executive officer, are monies deferred pursuant to the Company's 401(k) Plan, which allows employees of the Company and its wholly owned subsidiaries to defer up to 50% of their compensation, subject to applicable limitations in section 401(k) of the Internal Revenue Code of 1986, as amended, and amounts deferred pursuant to the Company's non-qualified deferred compensation plans described in this Proxy. Also included in base salary for 2002 are one-time payments to Messrs. Murphy and Shencavitz in the amounts of \$15,255.53 and \$7,827.77, respectively voted by the Board in the absence of an executive incentive plan for 2002.

| Name              | Year | 401(k) Deferrals | Non-Qualified Deferred Compensation |
|-------------------|------|------------------|-------------------------------------|
| Joseph M. Murphy  | 2004 | 16,000           | 143,565                             |
|                   | 2003 | 14,000           | 224,050                             |
|                   | 2002 | 12,000           | N/A                                 |
| Dean S. Read      | 2004 | 16,000           | 136,033                             |
|                   | 2003 | 14,000           | (2,810)                             |
|                   | 2002 | 12,000           | 285,081                             |
| Gerald Shencavitz | 2004 | 16,000           | 36,517                              |
|                   | 2003 | 14,000           | 32,256                              |
|                   | 2002 | 11,000           | 42,827                              |

2

Named executive officers received a payment of 4% of base salary for the fiscal year 2002 as an incentive payment for that calendar year. Named executive officers participated in a two-tiered bonus plan for fiscal years 2003 and 2004. During 2003 each named executive officer received 6% of base salary for surpassing a net income threshold and up to an additional 6% of base salary for achieving individually assigned goals in the areas of loan, deposit, and income growth as well as successful implementation of strategic plan initiatives. The 2004 plan was similarly designed and each of the named executive officers received 5.5% for surpassing a net income threshold and up to an additional 5.5% for achieving individually assigned goals in loan, deposit, and income growth, along with strategic plan initiatives. All of the foregoing amounts are included in the bonus amounts reflected in the Summary Compensation Table for each named executive officer.

3

Additional items included in the Other Annual Compensation column include social club dues, relocation expenses, and imputed life insurance amounts on group term insurance in excess of the allowable \$50,000, non-taxable IRS limit.

4

All Other Compensation represents <sup>a</sup>accrued amounts for future retirement benefits under the Company's Supplemental Executive Retirement Plan.

| Name              | Year | Imputed Insurance | Relocation Costs | Social Club Dues |
|-------------------|------|-------------------|------------------|------------------|
| Joseph M. Murphy  | 2004 | 1,426             | 0                | 810              |
|                   | 2003 | 1,346             | 0                | 450              |
|                   | 2002 | 2,367             | 45,970           | 715              |
| Dean S. Read      | 2004 | 2,332             | 0                | 0                |
|                   | 2003 | 2,322             | 0                | 0                |
|                   | 2002 | 2,412             | 0                | 0                |
| Gerald Shencavitz | 2004 | 1,242             | 0                | 0                |
|                   | 2003 | 1,242             | 0                | 0                |
|                   | 2002 | 841               | 0                | 0                |

## EQUITY COMPENSATION PLAN

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Aggregated Option Exercises in Fiscal Year 2004 and**Fiscal Year-End 2004 Option Values**

| Name         | Shares Acquired On Exercise (#) | Value Realized(\$)<br>(1) | Number of Securities Underlying Unexercised Option at Fiscal Year-End |               | Value of unexercised In-The-Money Options At Fiscal Year-End (2) |               |
|--------------|---------------------------------|---------------------------|---|---------------|--|---------------|
|              |                                 |                           | Exercisable   | Unexercisable | Exercisable  | Unexercisable |
| Dean S. Read | 5,825                           | \$61,162.50               | 19,900  | 19,275        | \$576,702.00   | \$558,589.50  |

- (1) The "value realized" represents the difference between the base (or exercise) price of the option shares and the market price of the option shares on the date the option was exercised. The value

realized is determined without considering any taxes, which may be owed.

- (2) The value of an option was determined by multiplying the number of shares of Common Stock that may be purchased under the option by the difference between the market price of \$28.98 per share, which was the closing price of a share of Common Stock as reported on AMEX on December 31, 2004, and the applicable exercise price.

#### Retirement Plans

The Company has a contributory 401(k) retirement plan available to all employees including the named executive officers. Employees may contribute between 1% and 50% of their compensation (subject to applicable regulatory restrictions), to which the Company will match 50% of the first 3% deferred by an employee and 25% on the second 3% deferred. The Board of Directors voted to credit each eligible participant's 401(k) account with 4% of salary for the years 2004, 2003 and 2002. Total Company contributions into the 401(k) Plan were \$391,273, \$392,824, and \$321,085, for the years ended December 31, 2004, 2003, and 2002, respectively.

The Company also maintains a nonqualified, noncontributory, defined-benefit, supplemental executive retirement program (the "SERP") for certain highly compensated executive employees. Mr. Murphy, Mr. Read and Mr. Shencavitz were the only authorized participants in the SERP as of December 31, 2004 (the "Participants"). Under the SERP the Participants are eligible to receive upon retirement, early retirement, a change in control of the Company, disability or death, an individually defined benefit payment based upon years of service.

Upon Normal Retirement Age defined, as age 68 for Mr. Murphy and age 65 for Mr. Shencavitz, monthly payments of \$11,200 and \$8,583 will be paid under the SERP plan to the named executives (or their beneficiary) for a period of 240 months. There are also provisions under the plan for reduced monthly payments in the event of an early retirement by any of these individuals. As of December 31, 2004, Messrs Murphy and Shencavitz have vested, monthly benefits of \$2,621, and \$796, respectively. Former Bank President, Mr. Dean S. Read, will begin receiving monthly payments of \$3,252.50 for 240 months, beginning April 1, 2005, representing his accrued benefit through March 2005 under this program.

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#### Compensation of Directors

The Directors of the Company, Bar Harbor Bank & Trust, and Bar Harbor Trust Services received a fee of \$400 for each meeting of the Company and its subsidiary boards attended and \$400 for each committee meeting attended in 2004. Members of the Board received \$400 when the Company and the Bank held joint meetings. The fee paid for the attendance at the 2004 Annual Meeting was \$400 per member of the Company Board of Directors. The Chairperson of the Company Board received an annual retainer of \$1,750 in addition to meeting fees for 2004. Meetings of the Board of Directors of the Company are held monthly. Director Murphy, who also serves as an officer of the Company, does not receive directors' fees. No additional fees were paid for membership on or attendance at meetings of the Board of Directors or any committees of the Board of Directors.

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#### Employment and Change in Control Agreements

##### Employment, Change in Control, Confidentiality and Noncompetition Agreement with Mr. Murphy

On November 7, 2003, the Company amended its written employment agreement with Joseph M. Murphy (CEO) originally dated January 3, 2003 (the Employment Agreement) in connection with his service as President and Chief Executive Officer of Bar Harbor Bankshares to reflect changes in the Company's Supplemental Retirement Programs and implementation of Change of Control Agreements. The

Employment Agreement provides for the payment of an annual base salary to the Chief Executive Officer not less than \$18,333.33 per month (an annualized rate of not less than \$220,000.00 per annum). The Employment Agreement provides for a review of the Chief Executive Officer's base salary not less than annually and may be adjusted at the Company's sole discretion. The Chief Executive Officer is also eligible to participate in a performance compensation plan with goals and incentive payments to be approved by the Board annually. The Employment Agreement is for an initial term of two (2) years with provisions for automatic extensions of one (1) year each in the absence of notice from the Company of its intention not to extend the term of the Employment Agreement. The initial term of the Employment Agreement commenced on January 3, 2003 and continues through January 3, 2005, unless sooner terminated. Neither the Company nor the Chief Executive Officer has given notice of termination and, therefore, the Employment Agreement has been extended through January 3, 2006. The Employment Agreement contains restrictions on competition by the Chief Executive Officer with the Company during the term of the Employment Agreement and for a period of one (1) year following the cessation of the Chief Executive Officer's employment with the Company regardless of reason. The Employment Agreement also provides, with limited exceptions, for a severance payment to the Chief Executive Officer in the event his employment is terminated within one (1) year following certain events defined to constitute a change in control of the Company. This severance payment resulting from a termination of employment following a change in control is equal to two (2) times the Chief Executive Officer's base annual salary, incentive compensation payments earned, and any accrued but unused vacation time. Both the Compensation and Human Resources Committee and the Board of Directors have reviewed and approved the Employment Agreement.

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#### Other Change in Control, Confidentiality and Non-competition Agreements

The Company entered into Change in Control, Confidentiality and Non-competition Agreements with former Bank President Mr. Dean S. Read and the Company's Chief Financial Officer, Mr. Gerald Shencavitz. These Agreements provided for severance of both salary and benefits for Mr. Read and Mr. Shencavitz. Mr. Shencavitz will receive salary and benefits under his agreement for a period of eighteen months in the event of both a change of control of the Company and subsequent termination (or constructive termination) within twelve months after a change of control, unless such termination was for cause. The Company also agreed to pay any excise tax imposed on the executive under Section 4999 of the Internal Revenue Code and provide for health insurance and other standard benefits for a period of 18 months.

All of these agreements were entered into as part of a total compensation program to attract and retain qualified executives and not entered into in response to any effort known to the Board of Directors by any party or entity to acquire control of the Company.

In addition to the foregoing, all e

xecutive officers of the Company are entitled to participate in certain group health, dental and term life insurance benefits. In accordance with Company policy, all such benefits are generally available to employees of the Company and its subsidiaries.

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Severance Arrangement with Mr. Read:

Dean S. Read resigned from his position as President of Bar Harbor Bank & Trust, the Company's principal financial services subsidiary, effective February 25, 2005. In connection with Mr. Read's resignation, the Company



and Mr. Read have entered into a severance agreement pursuant to which, among other things, the Company will pay Mr. Read a severance payment of \$215,000 payable over fourteen (14) consecutive months and will pay a portion of Mr. Read's health benefits for a limited period of time. The Severance Agreement also contains non-disclosure, non-solicitation, and non-competition covenants in favor of the Company.

Mr. Read voluntarily deferred a portion of his base salary over several years into a non-qualified deferred compensation plan. He will receive a lump sum distribution of these deferred salary dollars in the amount of \$125,555. This amount has already been accounted for on the Company's financials during the years that Mr. Read deferred these salary dollars.

#### Compensation Committee Interlocks and Insider Participation

The Compensation and Human Resources Committee is comprised of Company Directors Dodge, McCurdy, Phillips, Shea, Smith, and Woodside. Mr. Phillips serves as Chairperson of the Committee. The Company's and the Bank's Chief Executive Officer, Mr. Murphy and Bar Harbor Bank & Trust's Human Resource Officer, Ms. Marsha C. Sawyer along with former Bank President, Read, served on the committee in a non-voting, ex-officio capacity during 2004. Certain members of the Committee and their affiliates and families are borrowers from the Company's banking subsidiary Bar Harbor Bank & Trust. All loans and credit commitments to such persons were made in the ordinary course of business and were on substantially the same terms, including interest rates and collateral as those prevailing at the time for comparable transactions with unaffiliated persons, and did not involve more than the normal amount of risk of collectability or present other unfavorable features to the Company's subsidiaries.

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#### Report of the Compensation and Human Resources Committee on Executive Compensation

The Compensation and Human Resources Committee administers and recommends to the Board of Directors of the Company its executive compensation programs. These programs are intended to provide a package of base salary, traditional benefits, options, retirement payments, and incentive opportunities to its executives to achieve both current and long-term return on the stockholder's investment and align the executive's interest to those of the Company and its Subsidiaries employees, customers, and stockholders. The Committee does not use a formal set of criteria in evaluating the compensation of executive officers. However, some of the factors generally considered by the Compensation and Human Resources Committee are detailed below.

Levels of compensation are, in part, guided by the Company's need to attract and retain qualified executives who can make a major contribution to the success of the Company. The Committee regularly reviews compensation surveys comparing the Company's subsidiaries with comparable institutions in the State of Maine and New England.

#### Compensation Program Components

The Company's compensation program can be generally described as being comprised of two primary components: (a) base salary and benefits, and (b) executive incentive compensation programs. Base salary and benefits include items such as retirement plan benefits and insurance programs, and are intended to adequately compensate executive officers and employees for capable performance of their core duties and responsibilities associated with their positions. The named executive officers and four other senior officers participated in a two-tiered executive incentive plan for 2004. The first tier provided for an incentive payment determined by meeting a certain earnings threshold. The second tier provided for an additional incentive payment based on individually assigned goals such as loan and deposit growth, quality measures, and implementation of strategic plan initiatives. Individual payments to these named executive

officers and senior officers under this two-tiered program ranged from 8.53% to 11% of base salary. An accrual for payment of these incentives was booked in 2004, but actual payments were made to participating individuals early in 2005

### *Performance Measures*

The Committee considers certain performance measures in evaluating the compensation of the Company's named executive officers and other senior officers. In addition to using Maine and New England banking surveys other guiding factors the Company uses in establishing appropriate levels of executive officer compensation are the specific performance of each executive officer, the performance of the Company as a whole, the financial plan for the year, and such other general factors as the business climate.

### Stock Option Plan

An additional component of compensation for Company employees in management positions, including named executive officers, is the award of options to purchase shares of Common Stock at fixed prices. The Company's Stock Option Plan, which is scheduled to expire October 2010, is based on performance in that the options only have value if the market value of Common Stock increases.

### *Compensation of the Executive Officer*

The Committee annually reviews the Chief Executive Officer's existing compensation arrangement, the performance of the Company and its Subsidiaries, the Chief Executive Officer's performance, and the compensation of chief executive officers in other similar companies of comparable size and performance characteristics.

The compensation of the Company's Chief Executive Officer is generally divided into two basic parts: (a) salary and benefits, and (b) executive incentive compensation. The Company's Employment Agreement with the Chief Executive Officer provides for a review of his base salary no less than annually and it may be adjusted at the Company's sole discretion. His base salary for 2004 was increased 4.55% over 2003. The second part of the compensation program for the Chief Executive Officer is based upon the incentive compensation programs described above, and applies to all named executive officers. The program resulted in 10.45% of additional compensation for the Chief Executive Officer based upon the achievement of strategic and financial objectives determined by the Committee and approved by the Board of Directors.

The Chief Executive Officer does not receive any director fees for his participation as a member of the Company's Board of Directors or as a director of any of the Company's subsidiaries.

The Committee believes the Chief Executive Officer's compensation is competitive with compensation provided by other similar companies of comparable size and performance histories.

The 2004 Compensation and Human Resources Committee have submitted the foregoing report to stockholders regarding compensation.

Robert M. Phillips, Chair  
Peter Dodge  
John P. McCurdy  
Constance C. Shea  
Kenneth E. Smith  
David B. Woodside

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### Transactions with Management and Others

None of the nominees for directors, other continuing directors, or named executive officers of the company or any of its subsidiaries engaged in 2004 in any transaction with the Company or any of its subsidiaries, in which the amount involved or exceeds \$60,000 other than the financial transactions described below under the heading "Indebtedness of Management".

-

### Indebtedness of Management

The Company's wholly owned subsidiary, Bar Harbor Bank & Trust, has had, and expects to have in the future, banking transactions in the ordinary course of its business with directors, officers, principal stockholders, and their associates. All such transactions have been and will be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. No such transactions have involved more than normal risk of collectability or presented other unfavorable features, and no loans outstanding to directors, officers, principal stockholders, or their associates in an amount in excess of \$60,000 are non-accruing or past due or are otherwise considered to be potential problem loans. All loans made by the Company and its subsidiaries to directors and executive officers are regulated by the Company's federal and state regulators. These regulations (known as "Reg. O") set forth various practices and reporting requirements for loans to directors and officers. In addition, the Sarbanes-Oxley Act of 2002 permits banks and bank holding companies to extend credit to their directors and officers provided that such extension of credit are (a) made or provided in the ordinary course of the consumer credit business of such issuer; (b) of a type that is generally made available by such issuer to the public; and (c) made by such issuer on market terms, or terms that are no more favorable than those offered by the issuer. We believe that all extensions of credit to our directors and executive officers satisfy the foregoing conditions.

## PERFORMANCE GRAPH

The following graph illustrates the estimated yearly percentage change in the Company's cumulative total stockholder return on its Common Stock for each of the last five years. Total stockholder return is computed by taking the difference between the ending price of the Common Stock at the end of the previous year and the current year, plus any dividends paid divided by the ending price of the Common Stock at the end of the previous year. For purposes of comparison, the graph also illustrates comparable stockholder return of AMEX listed banks as a group as measured by the AMEX Market Index and the peer group index as defined by AMEX. The graph assumes a \$100 investment on December 31, 1999 in the common stock of each of the Company, the AMEX peer group banks and the AMEX Market Index as a group and measures the amount by which the market value of each, assuming reinvestment of dividends, has increased as of December 31 of each calendar year since the base measurement point of December 31, 1999.

Market values for 2000, 2001, 2002, 2003, and 2004 are based on information obtained from the American Stock Exchange.

|                   |        |        |        |        |        |        |
|-------------------|--------|--------|--------|--------|--------|--------|
|                   | 1999   | 2000   | 2001   | 2002   | 2003   | 2004   |
| Bar Harbor        | 100.00 | 83.57  | 111.50 | 124.67 | 180.71 | 199.94 |
| Peer Group Index  | 100.00 | 100.08 | 127.03 | 143.70 | 178.63 | 209.30 |
| Amex Market Index | 100.00 | 99.87  | 94.22  | 90.46  | 123.12 | 140.99 |

(Graph)

## SELECTION OF AUDITORS

On March 26, 2004, the Audit Committee of the Board of Directors of Bar Harbor Bankshares (the "Company") dismissed Berry, Dunn, McNeil & Parker ("BDMP") as its independent accountants, and approved the appointment of KPMG LLP as its independent public accountants for the Company's fiscal year ending December 31, 2004.

The Company's Audit Committee has approved the appointment of KPMG LLP as the Company's principal independent public accountant for the fiscal year ending December 31, 2005.

The reports of KPMG LLP and BDMP on the Company's consolidated financial statements as of December 31, 2004 and 2003 and for the three year period ending on December 31, 2004 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

During the Company's fiscal years 2003 and the interim period preceding the dismissal of BDMP on March 26, 2004, there have been no disagreements between the Company and BDMP on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreement(s), if not resolved to the satisfaction of BDMP, would have caused it to make reference to the subject matter of the disagreement(s) in connection with its prior reports.

During the two-year period ending December 31, 2003, and the interim period preceding the dismissal of BDMP, no reportable events occurred in connection with the relationship between BDMP and the Company.

We do anticipate a representative from KPMG LLP will be present and available to respond to questions or make a statement(s) at the meeting. A representative from BDMP is not expected to be present at the Annual Stockholders' meeting.

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## Audit Fees

The following summarizes KPMG LLP's and BDMP's audit fees for 2004 and 2003 respectively:

|                    | KPMG LLP  | BDMP   | BDMP     |
|--------------------|-----------|--------|----------|
|                    | 2004      | 2004   | 2003     |
| Service            |           |        |          |
| Audit Fees         | \$369,250 | \$ -0- | \$74,815 |
| Audit Related Fees | 29,250    | 5,330  | 35,544   |
| Tax Fees           | 21,425    | -0-    | 11,402   |
| All Other Fees     | -0-       | 5,071  | 38,468   |

|       |           |          |           |
|-------|-----------|----------|-----------|
| Total | \$419,925 | \$10,401 | \$160,229 |
|-------|-----------|----------|-----------|

## 1.

**Audit Fees.** The aggregate fees billed for professional services rendered by the principal accountants KPMG LLP and BDMP, for the audit of the Company's annual financial statements and review of financial statements included in the Company's Forms 10-Q for the years ended December 31, 2004 and 2003 were \$369,250 and \$74,815 respectively.

## 2. Audit Related Fees.

The aggregate fees billed for assurance and related services rendered by KPMG LLP and BDMP related to the performance of the audit or review of the Company's financial statements in the years ended December 31, 2004 and 2003 were \$29,250, \$5,330, and \$35,544, respectively. These services related to an employee benefit plan audit, the acquisition of the Rockland Branch of Androscoggin Savings Bank, and accounting consultations.

## 3. Tax fees.

The aggregate fees billed for professional services rendered by KPMG LLP and BDMP for tax compliance, tax advice and tax planning in the years ended December 31, 2004 and 2003 were \$21,425 and \$11,402, respectively. The nature of the services comprising the fees disclosed under this category is preparation of federal and state tax returns, review of estimated tax payments, and tax planning.

## 4. All other fees:

The aggregate fees billed for services provided by BDMP, other than the services reported in the paragraphs above, in the years ended December 31, 2004 and 2003 were \$5,071 and \$38,468, respectively. The nature of the services comprising the fees disclosed under this category was assistance with the strategic planning process, fixed asset assistance, and arbitration proceedings.

The Audit Committee's pre-approval policies and procedures require the Audit Committee Chair to pre-approve all audit and non-audit services, and report such pre-approvals to the Audit Committee at its next regularly scheduled meeting.

No services were rendered for financial information systems design and implementation or internal audit.

The Company's Audit Committee has considered the compatibility of the non-audit services furnished by the Company's auditing firm with the firm's need to be independent.

See Appendix B for Letter from Berry, Dunn, McNeil & Parker

## OTHER MATTERS

Financial Statements

A copy of the Company's Annual Report is being provided to each stockholder with this Proxy Statement.

THE COMPANY IS ALSO INCLUDING A COPY OF THE ANNUAL REPORT BY THE COMPANY TO THE SECURITIES AND EXCHANGE COMMISSION ON FORM 10-K, INCLUDING CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES FOR THE LAST FISCAL YEAR IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. UPON WRITTEN REQUEST, STOCKHOLDERS MAY ALSO OBTAIN THE MOST RECENT ANNUAL DISCLOSURE STATEMENT THAT CONTAINS FINANCIAL INFORMATION COVERING THE LAST TWO YEARS.

Any request for a copy of the Annual Disclosure Statement must contain a representation that the person making the request was a beneficial owner of Common Stock on March 29, 2005, which is the record date for this proxy solicitation. Requests should be addressed to: Marsha C. Sawyer, Clerk, Bar Harbor Bankshares, 82 Main Street, Bar Harbor, ME 04609.

### *Nominations by Stockholders*

The Company bylaws provide that the Company will consider nominees for election to the Board of Directors recommended by stockholders if made in the same manner provided for under the bylaws with regard to typical stockholder proposals. These procedures require in part that the stockholder submit the proposed nomination in writing to Marsha C. Sawyer, Clerk, Bar Harbor Bankshares, 82 Main Street, Bar Harbor, Maine 04609, no less than 120 days prior to the anniversary date of the immediately preceding Annual Meeting or the date on which the next Annual Meeting is scheduled to occur (provided that notice of such date has been provided to the stockholders or has been publicly announced, whichever date is later. Any such notice shall set forth the reasons for considering such nominee, the name and address of the stockholder proposing the nominee, the number of shares of the Company's capital stock beneficially owned by such stockholder and any material interest of the stockholder in the matter proposed to be brought before the Annual Meeting. If the Governance Committee determines that any stockholder proposal (including a nomination for election of a director) was not made in a timely fashion or that information provided in the notice does not fulfill the information requirements set forth above in any material respects, such proposal shall not be presented for action at the Annual Meeting for which it is proposed. If a stockholder should propose a candidate, we anticipate that the Governance Committee would evaluate that candidate on the basis of the criteria noted above.

### Stockholder Proposals

Stockholders may submit proposals for consideration at the 2006 Annual Meeting, which presently is scheduled for May 16, 2006. In order to be included in the Company's Proxy Statement and Form of Proxy relating to that meeting, such proposals must be received by the Company no later than December 9, 2005 which is 120 days in advance of the proposed mailing date of the 2006 proxy materials. Proposals should be addressed to Marsha C. Sawyer, Clerk, Bar Harbor Bankshares, 82 Main Street, Bar Harbor, ME 04609.

### Communication with Board of Directors

The Board of Directors does not have a formal process for stockholders to send communications to the Board. In view of the infrequency of stockholder communications to the Board of Directors, the Board does not believe that a formal process is necessary. Written communications received by the Company from stockholders will be shared with the full Board of Directors no later than the next regularly scheduled Board meeting.

### Code of Ethics

The Company Board of Directors has adopted a Code of Ethics that applies to all of our employees, officers and directors. The Code covers compliance with law; fair and honest dealings with the Company, with competitors

and with others; fair and honest disclosure to the public; and procedures for compliance with the Code. You can review our Code of Ethics on our website located at [www.bhbt.com](http://www.bhbt.com).

**Other Business**

As of the date of this Proxy Statement, the Company's Board of Directors knows of no matters that will be presented for consideration at the Annual Meeting other than as described in this Proxy Statement. If any other business, matter or proposal shall properly come before the Annual Meeting and be voted upon, the enclosed proxies will be deemed to confer discretionary authority on the individuals named as proxies therein to vote the shares represented by such proxies as to any such matters. The persons named as proxies intend to vote or not to vote in accordance with the recommendation of the Company's Board of Directors.

By Order of the Board of Directors

/s/ Marsha C. Sawyer

Marsha C. Sawyer, Clerk

APPENDIX A

REPORT OF THE AUDIT COMMITTEE

March 16, 2005

To the Board of Directors of Bar Harbor Bankshares:

The Audit Committee has reviewed and discussed with management the Company's audited financial statements as of and for the year ended December 31, 2004.

The Audit Committee has discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, "Communication with Audit Committees," as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants.

The Audit Committee has received and reviewed the written disclosures and the letter from the independent auditors required by Independence Standard No. 1, "Independence Discussions with Audit Committees," as amended, by the Independence Standards Board, and has discussed with the auditors the auditors' independence.

Based on the reviews and discussions referred to above, the Audit Committee recommends to the Board of Directors that the financial statements referred to above be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

Each of the members of the Audit Committee is independent as defined under the listing standards of the American Stock Exchange as of December 31, 2004.

The Board of Directors has determined that the Company has at least one "audit committee financial expert" serving on its Audit Committee. Mr. Scott Toothaker, CPA, meets the criteria for an "audit committee financial expert" and is "independent" within the meaning of the rules adopted by the American Stock Exchange pursuant to the Sarbanes-Oxley Act of 2002.

Scott G. Toothaker, Chair  
Thomas A. Colwell  
Martha T. Dudman  
Dwight L. Eaton  
Constance C. Shea  
David B. Woodside

APPENDIX B

LETTER FROM BERRY, DUNN, MCNEIL & PARKER

March 30, 2005

Securities and Exchange Commission  
Washington, D.C. 20549

Ladies and Gentlemen:

We were previously the principal accountants for Bar Harbor Bankshares and Subsidiaries, and on February 19, 2004, we reported on the consolidated financial statements of Bar Harbor Bankshares and Subsidiaries as of and for the year ended December 31, 2003. On March 26, 2004, we were dismissed as principal accountants of Bar Harbor Bankshares and Subsidiaries. We have read Bar Harbor Bankshares and Subsidiaries statements included on its Selection of Auditor page of its Proxy filing dated March 30, 2005, and we agree with such statements.

Very truly yours,

/s/Berry, Dunn, McNeil & Parker

Berry, Dunn, McNeil & Parker  
Portland, Maine



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207-775-2387 FAX 207-774-2375  
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