SALISBURY BANCORP INC
Form 10-Q
August 11, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 0-24751

Salisbury Bancorp, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Connecticut	06-1514263
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
5 Bissell Street Lakeville Connecticut	06039
(Address of principal executive offices)	(Zip Code)

Registrants Telephone Number, Including Area Code (860) 435-9801

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer, accelerated filer" and "smaller reporting company in Rule 12b-2 of the Exchange Act). (Check one):

Large Accelerated Filer [_] Accelerated Filer [_] Non-Accelerated Filer [_] Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [_] No [X]

APPLICABLE ONLY TO CORPORATE ISSUERS:

The Company had 1,685,861 shares outstanding as of August 11, 2008.

SALISBURY BANCORP, INC. AND SUBSIDIARY

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Part I-- FINANCIAL INFORMATION
Item 1. Financial Statements

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except per share data)
June 30, 2008 and December 31, 2007

	June 30, 2008
ASSETS	
(unaudited)	
Cash and due from banks	$ 8,578
Interest-bearing demand deposits with other banks	1,083
Money market mutual funds	1,390
Federal funds sold	200
Cash and cash equivalents	11,251
Investments in available-for-sale securities (at fair value)	145,745
Investments in held-to-maturity securities (fair values of $69 as of June 30, 2008 and $71 as of December 31, 2007)	69
Federal Home Loan Bank stock, at cost	5,267
Loans held-for-sale	409
Loans, less allowance for loan losses of $2,625 as of June 30, 2008 and $2,475 as of December 31, 2007	288,941
Investment in real estate	75
Premises and equipment	7,383
Goodwill	9,829
Core deposit intangible	1,247
Accrued interest receivable	2,630
Cash surrender value of life insurance policies	3,748
Other assets	3,111
Total assets	$ 479,705
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits:	
Noninterest-bearing	$ 69,227

Interest-bearing	263,560
Total deposits	332,787
Federal Home Loan Bank advances	99,246
Due to broker	0
Other liabilities	4,165
Total liabilities	436,198
Shareholders' equity:	
Common stock, par value $.10 per share; authorized 3,000,000 shares; issued and outstanding, 1,685,861 shares at June 30, 2008 and 1,685,021 shares at December 31, 2007	169
Paid-in capital	13,158
Retained earnings	36,421
Accumulated other comprehensive loss	(6,241)
Total shareholders' equity	43,507
Total liabilities and shareholders' equity	$ 479,705

The accompanying notes are an integral part of these consolidated financial statements

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SALISBURY BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands, except per share data)
June 30, 2008 and 2007
(unaudited)

	Six Months Ended June 30,		Three Months June 30
	2008	2007	2008
Interest and dividend income:			
Interest and fees on loans	$ 9,232	$ 8,736	$ 4,600
Interest on debt securities:			
Taxable	2,630	2,757	1,343
Tax-exempt	1,153	1,111	579
Dividends on equity securities	130	159	52
Other interest	114	34	17
Total interest and dividend income	13,259	12,797	6,591
Interest expense:			
Interest on deposits	3,639	4,022	1,666
Interest on Federal Home Loan Bank advances	2,079	2,046	1,044
Total interest expense	5,718	6,068	2,710

Net interest and dividend income	7,541	6,729	3,881	
Provision for Loan Losses	170	0	110	
Net interest and dividend income after provision for loan losses	7,371	6,729	3,771	
Noninterest income:				
Trust/Wealth Advisory Services income	1,141	1,033	541	
Loan commissions	2	13	2	
Service charges on deposit accounts	401	361	203	
Gain on sales of available-for-sale securities, net	354	180	36	
Gain on sales of loans held-for-sale	159	167	86	
Other income	529	485	285	
Total noninterest income	2,586	2,239	1,153	
Noninterest expense:				
Salaries and employee benefits	4,077	3,832	2,001	
Occupancy expense	463	380	232	
Equipment expense	431	370	220	
Data processing	695	638	376	
Insurance	90	74	46	
Printing and stationery	135	144	75	
Professional fees	433	339	199	
Legal expense	166	126	105	
Amortization of core deposit intangible	82	82	41	
Other expense	775	639	401	
Total noninterest expense	7,347	6,624	3,696	
Income before income taxes	2,610	2,344	1,228	
Income taxes	546	461	245	
Net income	$ 2,064	$ 1,883	$ 983	$
Earnings per common share	$ 1.23	$ 1.12	$ .58	$
Dividends per common share outstanding	$ .56	$ .54	$ .28	$

The accompanying notes are an integral part of these consolidated financial statements.

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)
Six months ended June 30, 2008 and 2007
(unaudited)

	2008
Cash flows from operating activities:	
Net income	$ 2,064
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization of securities, net	36
Gain on sales of available-for-sale securities, net	(354)
Provision for loan losses	(170)
Change in loans held-for-sale	(289)
Change in deferred loan costs, net	(23)
Net decrease in mortgage servicing rights	17
Depreciation and amortization	324
Amortization of core deposit intangible	82
Accretion of fair value adjustment on deposits/borrowings	(65)
Amortization of fair value adjustment on loans	24
Increase in interest receivable	(92)
Deferred tax expense (benefit)	188
Decrease in taxes receivable	42
Decrease in prepaid expenses	56
Increase in cash surrender value of insurance policies	(61)
Increase in income tax payable	0
Increase in other assets	(146)
Decrease in accrued expenses	(158)
Increase in interest payable	74
Increase in other liabilities	415
Issuance of shares for Directors' fees	28
Change in unearned income on loans	6
Net cash provided by operating activities	1,998
Cash flows from investing activities:	
Purchase of Federal Home Loan Bank stock	(91)
Purchases of available-for-sale securities	(85,489)
Proceeds from sales of available-for-sale securities	82,990
Proceeds from maturities of held-to-maturity securities	2
Loan originations and principal collections, net	(18,599)
Purchase of loans	(2,009)
Recoveries of loans previously charged-off	22
Capital expenditures	(887)
Net cash used in investing activities	(24,061)
Cash flows from financing activities:	
Net increase (decrease) in demand deposits, NOW and savings accounts	19,523
Net (decrease) increase in time deposits	(4,477)
Federal Home Loan Bank advances	17,000
Principal payments on advances from Federal Home Loan Bank	(10,328)
Net change in short term advances from Federal Home Loan Bank	(2,372)
Dividends paid	(1,210)
Net cash provided by (used in) financing activities	18,136
Net decrease in cash and cash equivalents	(3,927)

Cash and cash equivalents at beginning of year	15,178
Cash and cash equivalents at end of period	$ 11,251
Supplemental disclosures:	
Interest paid	$ 5,644
Income taxes paid	316

The accompanying notes are an integral part of these condensed consolidated financial stateme

SALISBURY BANCORP, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying condensed consolidated interim financial statements are unaudited and include the accounts of Salisbury Bancorp, Inc. (the "Company"), its wholly owned subsidiary Salisbury Bank and Trust Company (the "Bank"), and the Bank's subsidiaries, S.B.T. Realty, Inc. and SBT Mortgage Service Corporation (the "PIC"). The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to SEC Form 10-Q. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. All significant intercompany accounts and transactions have been eliminated in the consolidation. These financial statements reflect, in the opinion of Management, all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the Company's financial position and the results of its operations and its cash flows for the periods presented. Operating results for the six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2007 Annual Report on Form 10-K.

The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

NOTE 2 - COMPREHENSIVE INCOME (LOSS)

Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," establishes standards for disclosure of comprehensive income which includes net income and any changes in equity from non-owner sources that are not recorded in the income statement (such as changes in the net unrealized gains (losses) on securities). The purpose of reporting comprehensive income is to report a measure of all changes in equity that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners. The Company's primary source of other comprehensive income (loss) is the net unrealized holding gain (loss) on securities.

Comprehensive income (loss)

	Six months ended June 30, 2008	Six months ended June 30, 2007	Three months ended June 30, 2008	Three months ended June 30, 2007
	(amounts in thousands)		(amounts in thousands)	
Net income	$ 2,064	$ 1,883	$ 983	$ 949
Net change in unrealized (losses) on securities and minimum pension liability adjustment, net of tax during period.	(2,922)	(2,742)	(1,976)	(2,356)
Comprehensive loss	$ (858)	$ (859)	$ (993)	$(1,407)

NOTE 3 - IMPACT OF NEW ACCOUNTING STANDARDS

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, "Accounting for Certain Hybrid Instruments" ("SFAS No. 155"), which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with SFAS No. 133. The statement also subjects beneficial interests issued by securitization vehicles to the requirements of SFAS No. 133. The statement was effective as of January 1, 2007. The adoption of SFAS No. 155 did not have an impact on the Company's financial condition and results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets- an amendment of FASB Statement No. 140" ("SFAS No. 156"). SFAS No. 156 requires any entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specific situations. Additionally, the servicing asset or servicing liability shall be initially measured at fair value; however, an entity may elect the "amortization method" or "fair value method" for subsequent balance sheet reporting periods. The adoption of this statement did not have a material impact on the Company's financial condition, results of operations or cash flows.

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In June 2006 the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109" (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 was effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP) and enhances disclosures about fair value measurements. SFAS No. 157 retains the exchange price notion and clarifies that the exchange price is the price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date.

SFAS No. 157 was effective for the Company's consolidated financial statements for the year beginning on January 1, 2008. The adoption of this statement did not have a material impact on its financial condition and results of operations.

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task force ("EITF") on Issue No. 06-4 "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," ("EITF Issue 06-4"). EITF 06-4 requires companies with an endorsement split-dollar life insurance arrangement to recognize a liability for future postretirement benefits. The effective date was for fiscal years beginning after December 15, 2007, with earlier application permitted. Companies may recognize the effects of applying this issue through either (a) a change in accounting principle through a cumulative effect adjustment to retained earnings or (b) a change in accounting principle through retrospective application to all periods. The adoption of EITF Issue 06-4 did not have a material impact on the Company's financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that were not previously required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The new standard was effective at the beginning of the Company's fiscal year beginning January 1, 2008, and early application may be elected in certain circumstances. The adoption of this statement did not have a material impact on its financial condition and results of operations.

In December 2007, the FASB issued SFAS No. 141 (Revised 2008), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) will significantly change the accounting for business combinations. Under SFAS 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. It also amends the accounting treatment for certain specific items including acquisition costs and non controlling minority interests and includes a substantial number of new disclosure requirements. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The Company does not expect the adoption of this statement to have a material impact on its financial condition and results of operations.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities will be required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedge items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The guidance in SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company does not expect the adoption of this statement to have a material impact on its financial condition and results of operations.

NOTE 4 - DEFINED BENEFIT PENSION PLAN

The following summarizes the net periodic benefit cost for the six and three months ended June 30:

	Six Months Ended June30,		Three Months Ended June 30,	
	2008	2007	2008	2007
Components of net periodic benefit cost:				
Service cost	$ 201,904	$ 218,870	$ 88,154	$ 104,780
Interest cost	183,475	171,011	88,475	82,034
Expected return on plan assets	(213,496)	(184,471)	(107,746)	(107,307)
Amortization of:				
Prior service costs	446	447	223	224
Actuarial loss	22,431	34,118	6,681	12,945
Net periodic benefit cost	$ 194,760	$ 239,975	$ 75,787	$ 92,676

The following actuarial weighted average assumptions were used in calculating net periodic benefit cost:

Discount rate	6.00%	6.00%	6.00%	6.00%
Average wage increase	Graded table*	Graded table*	Graded table*	Graded table*
Return on plan assets	7.50%	7.50%	7.50%	7.50%

*5% at age 20 grading down to 3% at age 60 and beyond (roughly 3.25% on average).

NOTE 5 - ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

($ in 000s)		Fair Value Measurements at Reporting using		
Description	6/30/08	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	$ 145,745	$ 126	$ 145,619	$ 0
Total	$ 145,745	$ 126	$ 145,619	$ 0

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business

The following provides Management's comments on the financial condition and results of operations of Salisbury Bancorp, Inc. (the "Company"), a Connecticut corporation that is the holding company for Salisbury Bank and Trust Company (the "Bank"). The Company's sole subsidiary is the Bank, which has seven (7) full service offices including a Trust/Wealth Services Division. Such offices are located in the towns of North Canaan, Lakeville, Salisbury and Sharon, Connecticut, Sheffield and South Egremont, Massachusetts, and Dover Plains, New York. In addition, the bank has received regulatory approvals to open a full-service branch in Millerton, New York. The Company and Bank were formed in 1998 and 1848, respectively. In order to provide a strong foundation for building shareholder value and servicing customers, the Company remains committed to investing in the technological and human resources necessary to developing new personalized financial products and services to meet the needs of customers. This discussion should be read in conjunction with Salisbury Bancorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007.

RESULTS OF OPERATIONS

Overview

The Company's net income for the six months ended June 30, 2008 was $2,064,000. This compares to earnings of $1,883,000 for the same period in 2007. Earnings per share for the six months ended June 30, 2008 totaled $1.23 per share which compared to earnings per share of $1.12 for the corresponding period in 2007. The increase in earnings is primarily attributable to an increase in earning assets, which has resulted in an increase in interest income, and movement in the markets, which has created opportunities to generate gains in securities transactions during the period, which contributed to the increase in noninterest income.

The Company's assets at June 30, 2008 totaled $479,705,000 compared to total assets of $461,960,000 at December 31, 2007. During the first six months of 2008, net loans outstanding, not including loans held-for-sale increased $20,750,000 or 7.73% to $288,941,000. This compares to total net loans outstanding, not including loans held-for-sale of $268,191,000 at December 31, 2007. This increase is primarily attributable to increased loan demand during the period. Non-performing loans totaled $2,265,000 at June 30, 2008 or .78% of total loans outstanding. This compares to non-performing loans totaling $1,008,000 at December 31, 2007 or .37% of total loans outstanding. The Bank continues to monitor the quality of the loan portfolio to ensure that loan quality will not be sacrificed for growth or otherwise compromise the Company's objectives. Deposits at June 30, 2008 totaled $332,787,000 as compared to total deposits of $317,741,000 at December 31, 2007.

The Bank is "well capitalized" pursuant to the standards of the Federal Deposit Insurance Corporation. The Bank's total risk based capital ratio was 14.14%; the Tier 1 capital ratio was 13.21% and the leverage ratio was 8.21%. The Board of Directors declared a second quarter cash dividend of $.28 per common share, which was paid on July 31, 2008 to shareholders of record as of June 30, 2008. This compared to a cash dividend of $.27 per common share that was paid for the second quarter of 2007. Year-to-date dividends total $.56 per common share outstanding for this year. This compares to total year-to-date dividends of $.54 per common share one year ago.

Critical Accounting Estimates

In preparing the Company's financial statements, Management selects and applies numerous accounting policies. In applying these policies, Management must make estimates and assumptions. The accounting policy that is most susceptible to critical estimates and assumptions is the allowance for loan losses. The determination of an appropriate provision is based on an estimation of the probable amount of credit losses in the loan portfolio. Many factors influence the amount of estimated loan losses, relating to both the specific characteristics of the loan portfolio and general economic conditions nationally and locally. While Management carefully considers these factors in determining the amount of the allowance for loan losses, future adjustments may be necessary due to changed conditions, which could have an adverse impact on reported earnings in the future. See "Provisions and Allowance for Loan Losses."

SIX MONTHS ENDED JUNE 30, 2008
AS COMPARED TO SIX MONTHS ENDED JUNE 30, 2007

Net Interest and Dividend Income

The Company's earnings are primarily dependent upon net interest and dividend income, and to a lesser extent non-interest income. Net interest and dividend income is the difference between interest and dividends earned primarily on the loan and securities portfolios and interest paid on deposits and advances from the Federal Home Loan Bank. Non-interest income is primarily derived from the Trust/Wealth Advisory Services division, service charges and other fees related to deposit and loan accounts and income from gains in securities transactions. For the following discussion, net interest and dividend income is presented on a fully taxable-equivalent ("FTE") basis. FTE interest income restates reported interest income on tax exempt securities as if such interest were taxed at the Company's federal tax rate of 34% for all periods presented.

(amounts in thousands) Six Months Ended June 30,	2008	2007
Total Interest and Dividend Income (financial statements)	$13,259	$12,797
Tax Equivalent Adjustment	594	
		572
Total Interest and Dividend Income (on an FTE basis)	13,853	13,369
Total Interest Expense	5,718	6,068
Net Interest and Dividend Income-FTE	$ 8,135	$ 7,301

Total interest and dividend income on a FTE basis for the six months ended June 30, 2008, when compared to the same period in 2007, increased $484,000 or 3.62%. The increase was primarily attributable to an increase of earning assets.

Interest expense on deposits for the first six months of 2008 totaled

$3,639,000, a decrease of $383,000 or 9.52% which compared to $4,022,000 for the same period in 2007. This decrease reflects an economic environment of generally lower interest rates. The Bank's volume of Federal Home Loan Bank advances outstanding at June 30, 2008 increased 4.46% when compared to total advances outstanding at December 31, 2007, resulting in an increase of interest expense totaling $33,000. Total interest expense for the six months ended June 30, 2008 was $5,718,000, a decrease of $350,000 or 5.77% when compared to the same period in 2007.

Overall, net interest and dividend income (on an FTE basis) increased $834,000 or 11.42% to $8,135,000 for the period ended June 30, 2008 when compared to the same period in 2007.

Noninterest Income

Noninterest income totaled $2,586,000 for the six months ended June 30, 2008. This is an increase of $347,000 or 15.50% compared to noninterest income of $2,239,000 for the six months ended June 30, 2007. Continuing growth of the Trust/Wealth Advisory Services Division has resulted in increased income of $108,000 or 10.45% to $1,141,000 for the period ended June 30, 2008. This compares to income totaling $1,033,000 for the corresponding period in 2007. Gains on sales of available-for-sale securities increased 96.67% to $354,000 for the first six months of 2008 compared to the same period in 2007. This increase is primarily the result of the movement of market rates during the quarter that resulted in opportunities to generate gains in securities transactions. Other income which primarily consists of fees associated with transaction accounts, fees related to the origination and servicing of mortgage loans and gains related to the sale of mortgage loans increased $65,000 or 6.34% to $1,091,000 from $1,026,000 during the period ended June 30, 2008.

Noninterest Expense

Noninterest expense increased 10.91% for the first six months of 2008 as compared to the same period in 2007. This increase is primarily attributable to the Trust and Wealth Advisory Services Division working with Bradley Foster and Sargent, Inc., an investment advisory firm that assists in providing a broader scope of highly personalized professional investment services to clients. In addition, internal audit expense increased. Although some increases in the described noninterest expenses in the table below are attributable to normal volumes of business, the increase also reflects additional staffing and the additional costs associated with the daily operation of our new Dover Plains, New York branch, which opened in August of 2007. The components of noninterest expense and the changes in the period were as follows (amounts in thousands):

	2008	2007	Change%	Change
Salaries and employee benefits	$ 4,077	$ 3,832	$ 245	6.39%
Occupancy expense	463	380	83	21.84
Equipment expense	431	370	61	16.48
Data processing	695	638	57	8.93
Insurance	90	74	16	21.62
Printing and stationery	135	144	(9)	(6.25)
Professional fees	433	339	94	27.72
Legal expense	166	126	40	31.74
Amortization of core deposit intangible	82	82	0	0
Other expense	775	639	136	21.28

Total noninterest expense	$ 7,347	$ 6,624	$ 723	10.91

Income Taxes

The income tax provision for the first six months of 2008 totaled $546,000 in comparison to $461,000 for the same six-month period in 2007. Pretax income in 2008 was $2,610,000 and included tax-exempt income totaling $1,153,000. Pretax income in 2007 was $2,344,000 and included tax-exempt income totaling $1,111,000. The increase in the income tax provision is primarily attributable to an increase in taxable income.

Net Income

Overall, net income totaled $2,064,000 for the six months ended June 30, 2008 and represents earnings of $1.23 per average share outstanding. This compares to net income of 1,883,000 or $1.12 per average share outstanding for the same period in 2007.

THREE MONTHS ENDED JUNE 30, 2008
AS COMPARED TO THREE MONTHS ENDED JUNE 30, 2007

Net Interest and Dividend Income

For the following discussion, net interest and dividend income is presented on a fully taxable-equivalent ("FTE") basis. FTE interest income restates reported interest income on tax exempt loans and securities as if such interest were taxed at the Company's federal tax rate of 34% for all periods presented.

(amounts in thousands)

Three Months Ended June 30	2008	2007
Total Interest and Dividend Income (financial statements)	$ 6,591	$ 6,360
Tax Equivalent Adjustment	298	301
Total Interest and Dividend Income (on an FTE basis)	6,889	6,661
Total Interest (Expense)	(2,710)	(2,997)
Net Interest and Dividend Income-FTE	$ 4,179	$ 3,664

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Total interest and dividend income on an FTE basis for the three months ended June 30, 2008 increased $228,000 or 3.42% compared to the same period in 2007. The increase was primarily attributable to an increase in earning assets. Interest expense on deposits decreased $326,000 or 16.37% for the quarter to $1666,000 compared to $1,992,000 for the same quarter in 2007. This decrease is primarily the result of an economic environment of generally lower interest rates. The Bank's volume of Federal Home Loan Bank advances has increased during the three month period ended June 30, 2008 when compared to the corresponding period in 2007. Interest expense on these advances increased $39,000 or 3.88% and totaled $1,044,000 for the three months ended June 30, 2008 compared to $1,005,000 for the corresponding period in 2007. Total interest expense for the three months ending June 30, 2008 was $2,710,000 compared to total interest expense for the same period in 2007 of $2,997,000, a decrease of $287,000 or

9.58%. This decrease is a reflection of an economic environment of generally lower interest rates. Overall, net interest and dividend income (on a FTE basis) increased $515,000 or 14.06% to $4,179,000 for the three-month period ended June 30, 2008 when compared to the corresponding period in 2007.

Noninterest Income

Noninterest income totaled $1,153,000 for the three months ended June 30, 2008 as compared to $1,115,000 for the three months ended June 30, 2007. This increase of $38,000 or 3.40% is primarily attributable to increased income generated by an increase in income from the Trust/Wealth Advisory Services Division of $38,000 or 7.56% to $541,000 for the second quarter of 2008 compared to the same period in 2007. This is primarily the result of continued growth in assets under management.

Noninterest Expense

Noninterest expense totaled $3,696,000 for the three month period ended June 30, 2008 as compared to $3,305,000 for the same period in 2007, an increase of $391,000 or 11.83%. Although there are some increases in noninterest expenses that are attributable to normal volumes of business, much of the overall increase in the noninterest expenses listed in the table below is attributable to additional staffing, and expenses related to the establishment of a new branch in New York State, which commenced operations on August 1, 2007. The components of noninterest expense and the changes in the period were as follows (amounts in thousands):

	2008	2007	Change	% Change
Salaries and employee benefits	$ 2,001	$ 1,880	$ 121	6.44%
Occupancy expense	232	189	43	22.75
Equipment expense	220	179	41	22.91
Data processing	376	301	75	24.91
Insurance	46	36	10	27.77
Printing and stationery	75	80	(5)	(6.25)
Professional fees	199	174	25	14.37
Legal expense	105	71	34	47.88
Amortization of core deposit intangible	41	41	0	0
Other expense	401	354	47	13.28
Total non-interest expense	$ 3,696	$ 3,305	$ 391	11.83

Income Taxes

The income tax provision for the three-month period ended June 30, 2008 totaled $245,000 in comparison to $224,000 for the same three month period in 2007. The increase in the income tax provision is attributable to an increase in taxable income.

Net Income

Overall, net income totaled $983,000 for the three months ended June 30, 2008 and represents earnings of $.58 per average share outstanding. This compares to net income of $949,000 for the same period in 2007, an increase of $34,000 or 3.58% and compares to earnings per share of $.56 for the 2007 period.

FINANCIAL CONDITION

Total assets at June 30, 2008 were $479,705,000 compared to $461,960,000 at December 31, 2007, an increase of 3.84%. The increase is primarily the result of an increase in earning assets during the period, specifically loans.

Securities

The make up of the securities portfolio is diversified among U.S. Government sponsored agencies, mortgage-backed securities and securities issued by states of the United States and political subdivisions of the states. None of the securities owned in the portfolio are collateralized by sub-prime mortgages. During the six months ended June 30, 2008, the securities portfolio, including Federal Home Loan Bank stock, decreased $1,543,000 or 1.01% to $151,081,000 from $152,624,000 at December 31, 2007.

Securities are classified in the portfolio as either securities available-for-sale or securities held-to-maturity. Almost all securities are classified as available-for-sale. The securities reported as available-for-sale are stated at fair value in the financial statements of the Company. Unrealized gains and losses on available-for-sale securities (accumulated other comprehensive income/loss) are not included in earnings, but are reported as a net amount (less expected tax) in a separate component of capital until realized. At June 30, 2008, the unrealized loss net of tax was $5,209,000. This compares to an unrealized loss net of tax of $2,273,000 at December 31, 2007. The unrealized losses in these securities are attributable to changes in market interest rates. Management deems the securities that are currently in an unrealized loss position as not other than temporarily impaired. The securities reported as securities held-to-maturity are stated at amortized cost.

The decrease in the portfolio is also a reflection of securities being sold and called during the period with the proceeds being used to fund loan demand and seasonal cash flow of transaction accounts.

Lending

Total net loans outstanding of $291,237,000 at June 30, 2008 compares to total loans outstanding of $270,361,000 at December 31, 2007, an increase of $20,876,000 or 7.72%. Although competition for loans remains aggressive in the Bank's market area, however new business development coupled with an increase in loan demand resulted in the increase.

The following table represents the composition of the loan portfolio comparing June 30, 2008 to December 31, 2007:

	June 30, 2008	December 31, 2007
	(amounts in thousands)	
Commercial, financial and agricultural	$ 19,793	$ 20,629
Real estate-construction and land development	31,870	28,928
Real estate-residential	171,972	158,600
Real estate-commercial	59,205	53,823
Consumer	8,266	8,005
Other	131	376

	291,237	270,361
Deferred costs, net	329	306
Unearned income	0	(1)
Allowance for loan losses	(2,625)	(2,475)
Net Loans	$ 288,941	$ 268,191

Provisions and Allowance for Loan Losses

Credit risk is inherent in the business of extending loans. The Bank monitors the quality of the portfolio to ensure that loan quality will not be sacrificed for growth or otherwise compromise the Bank's objectives. Because of this risk associated with extending loans, the Bank maintains an allowance for loan losses through charges to earnings. The provision expense for allowances for loan losses for the first six months of 2008 totaled $170,000. There was no provision expense for loan losses for the comparable period in 2007.

The Bank evaluates the adequacy of the allowance no less frequently than on a quarterly basis. No material changes have been made in the estimation methods or assumptions that the Bank uses in making this determination during the period ended June 30, 2008. Such evaluations are based on assessments of credit quality and "risk rating" of loans by senior management, which is reviewed by the Bank's Loan Committee on a regular basis. Loans are initially risk rated when originated. If there is deterioration in the credit, the risk rating is adjusted accordingly.

The allowance also includes a component resulting from the application of the measurement criteria of Statements of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" ("SFAS No. 114"). Impaired loans receive individual evaluation of the allowance necessary on a monthly basis. Loans to be considered for impairment are defined in the Bank's Loan Policy as commercial loans with balances outstanding of $100,000 or more and residential real estate mortgages with balances of $300,000 or more. Such loans are considered impaired when it is probable that the Bank will not be able to collect all principal and interest due according to the terms of the note.

Any such commercial loan or residential mortgage will be considered impaired under any of the following circumstances:

1. Non-accrual status;
2. Loans over 90 days delinquent;
3. Troubled debt restructures consummated after December 31, 1994;
4. Loans classified as "doubtful", meaning that they have weaknesses, which make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The individual allowance for any impaired loan is based upon the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. Specifically identifiable and quantifiable losses are immediately charged off against the allowance.

In addition, a risk of loss factor is applied in evaluating categories of loans generally as part of the periodic analysis of the Allowance for Loan Losses. This analysis reviews the allocations of the different categories of loans within the portfolio and it considers historical loan losses and delinquency figures as well as any recent delinquency trends.

Credit card loans are separately evaluated and given a special loan loss factor because management recognizes the higher risk involved in such loans. Concentrations of credit and local economic factors are also evaluated on a periodic basis. Historical average net losses by loan type are examined as well as trends by type. The Bank's loan mix over the same period of time is also analyzed. A loan loss allocation is made for each type of loan multiplied by the loan mix percentage for each loan type to produce a weighted average factor.

Nonperforming loans, which include all loans that are on a non-accrual status along with loans that are 90 days or more past due and still accruing, are closely monitored by Management. At June 30, 2008, nonperforming loans totaled $2,265,000 or 0.77% of total loans outstanding of $291,237,000. The allowance for loan losses totaled $2,625,000 representing 115.89% of nonperforming loans. Nonperforming loans totaled $1,008,000 or 0.37% of total loans outstanding of $270,361,000 at December 31, 2007. The allowance for loan losses totaled $2,475,000 at December 31, 2007 and represented 245.53% of nonperforming loans. A total of $42,000 of loans were charged off by the Bank during the six months ended June 30, 2008. These charged-off loans consisted primarily of consumer loans. This compares to loans charged off during the six month period ended June 30, 2007 of $63,000. A total of $22,000 of previously charged-off loans was recovered during the six month period ended June 30, 2008.

Recoveries for the same period in 2007 totaled $41,000. While Management estimates loan losses using the best available information, no assurances can be given that future additions to the allowance will not be necessary based on changes in economic and real estate market conditions, further information obtained regarding problem loans, identification of additional problem loans or other factors. Additionally, future additions to the allowance may be necessary to maintain adequate coverage ratios.

Deposits

The Company offers a variety of deposit accounts with a range of interest rates and terms. Total deposits increased 4.73% from December 31, 2007 to June 30, 2008. The following table illustrates the composition of the Company's deposits at June 30, 2008 and December 31, 2007:

	June 30, 2008	December 31, 2007
	(amounts in thousands)	
Demand	$ 69,227	$ 69,215
NOW	27,235	23,652
Money Market	61,351	56,210
Savings	63,402	52,616
Time	111,572	116,048
Total Deposits	$ 332,787	$ 317,741

Deposits constitute the principal funding source of the Company's assets.

Borrowings

The Company utilizes advances from the Federal Home Loan Bank as part of its operating strategy to supplement deposit growth and fund its asset growth, a strategy that is designed to increase interest income. These advances are made pursuant to various credit programs, each of which has its own interest rate and range of maturities. At June 30, 2008, the Company had $99,246,000 in outstanding advances from the Federal Home Loan Bank compared to $95,011,000 at December 31, 2007. Management expects that it will continue this strategy of supplementing deposit growth with advances from the Federal Home Loan Bank.

Off-Balance Sheet Arrangements

In the normal course of business the Company enters into certain relationships characterized as lending related off-balance sheet arrangements. These lending commitments have various terms and are designed to accommodate the financial needs of consumers, businesses and other entities. Many of these loan commitments have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of these commitments are expected to expire without being funded, the total commitment amounts do not necessarily represent future liquidity requirements.

Loan commitments have credit risk essentially the same as that involved in extending loans to customers. They are subject to normal credit approval procedures and policies. Collateral is obtained based on management's assessment of the customer's credit. The accompanying table summarizes the Company's off-balance sheet lending-related financial instruments by remaining maturity at June 30, 2008:

June 30, 2008
(amounts in thousands)

By remaining maturity	Less than 1 year	1-3 years	4-5 years	After 5 years
Off- balance sheet lending-related Financial Instruments				
Residential real estate related	$ 2,147	$ 0	$ 3	$ 26,299
Commercial related	573	2,554	1,756	17,637
Consumer related				7,320
Standby letters of credit		3		
Total	$ 2,720	$ 2,557	$ 1,759	$ 51,256

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Interest Rate Risk

Interest rate risk is the most significant market risk affecting the Company. Interest rate risk is defined as an exposure to a movement in interest rates that could have an adverse effect on net interest income. Net interest income is sensitive to interest rate risk to the degree that interest bearing liabilities mature or reprice on a different basis than earning assets. In an attempt to manage its exposure to changes in interest rates, the Bank's assets and liabilities are managed in accordance with policies established and reviewed by the Bank's Board of Directors. The Bank's Asset/Liability Management Committee monitors asset and deposit levels, developments and trends in interest rates, liquidity and capital. One of the primary financial objectives is to manage interest rate risk and control the sensitivity of earnings to changes in interest rates in order to prudently improve net interest income and manage the maturities and interest rate sensitivities of assets and liabilities.

To quantify the extent of these risks, both in its current position and in actions it might take in the future, interest rate risk is monitored using gap analysis which identifies the differences between assets and liabilities which mature or reprice during specific time frames and model simulation which is used to "rate shock" the Company's assets and liability balances to measure how much of the Company's net interest income is "at risk" from sudden rate changes.

An interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that same period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. At June 30, 2008, the Company maintains an asset sensitive (positive gap) position. This would suggest that during a period of increasing interest rates, the Company would be in a better position to increase net interest income. To the contrary, during a period of declining interest rates, a negative gap would result in a decrease in interest income. The level of interest rate risk at June 30, 2008 was within the limits approved by the Board of Directors.

Liquidity

Liquidity is the ability to raise funds on a timely basis at an acceptable cost in order to meet cash needs. Adequate liquidity is necessary to handle fluctuations in deposit levels, to provide for customers' credit needs, and to take advantage of investment opportunities as they are presented. The Company manages liquidity primarily with readily marketable investment securities, deposits and loan repayments. The Company's subsidiary, the Bank, is a member of the Federal Home Loan Bank of Boston. This enhances the liquidity position by providing a source of available borrowings. At June 30, 2008 the Company had approximately $58,292,000 in loan commitments outstanding. Management believes that the current level of liquidity is ample to meet the Company's needs for both the present and foreseeable future.

Capital

At June 30, 2008, the Company had $43,507,000 in shareholders' equity, a decrease of 4.51% when compared to December 31, 2007 shareholders' equity totaling $45,563,000. Several components contributed to the change since December 31, 2007. Earnings for the six-month period ended June 30, 2008 totaled $2,064,000. Securities in the portfolio that are classified as available-for-sale are adjusted to fair value monthly and the unrealized losses or gains are not included in earnings, but are reported as a net amount (less expected tax) as a separate component of capital until realized. Market fluctuations of fair value of the securities portfolio for the period ending June 30, 2008 resulted in other comprehensive loss net of tax totaling $5,209,000. The application of SFAS No. 158, as described in Note 3 resulted in other comprehensive income net of tax of $15,000 for the six month period ended June 30, 2008.

A review and analysis of the securities portfolio has determined that there has been no credit deterioration and that the unrealized loss on securities available-for-sale is due to the current interest rate environment and

Management deems the securities to be not other than temporarily impaired. The Company has declared two quarterly dividends resulting in a decrease in capital of $945,000. The Company issued 840 new shares of common stock under the terms of the Director Stock Retainer Plan that resulted in an increase in capital of $28,000. Under current regulatory definitions, the Bank is considered to be "well capitalized" for capital adequacy purposes. As a result, the Bank pays the lowest federal deposit insurance premiums possible. One primary measure of capital adequacy for regulatory

purposes is based on the ratio of risk-based capital to risk-weighted assets. This method of measuring capital adequacy helps to establish capital requirements that are more sensitive to the differences in risk associated with various assets. It takes into account off-balance sheet exposure in assessing capital adequacy and it minimizes disincentives to holding liquid, low-risk assets. At June 30, 2008, the Bank had a total risk based capital ratio of 14.14% compared to 15.00% at December 31, 2007. Maintaining strong capital is essential to bank safety and soundness. However, the effective management of capital resources requires generating attractive returns on equity to build value for shareholders while maintaining appropriate levels of capital to fund growth, meet regulatory requirements and be consistent with prudent industry practices. Management believes that the capital levels of the Bank are adequate to continue to meet the foreseeable capital needs of the institutions.

Impact of Inflation and Changing Prices

The Company's consolidated financial statements are prepared in conformity with generally accepted accounting principles which require the measurement of financial condition and operating results in terms of historical dollars without considering changes in the relative purchasing power of money, over time, due to inflation. Unlike most industrial companies, virtually all of the assets and liabilities of the Company are monetary and as a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation, although interest rates do not necessarily move in the same direction or with the same magnitude as the prices of goods and services. Although not a material factor in recent years, inflation could impact earnings in future periods.

Forward Looking Statements

This Form 10-Q and future filings made by the Company with the Securities and Exchange Commission, as well as other filings, reports and press releases made or issued by the Company and the Bank, and oral statements made by executive officers of the Company and the Bank, may include forward-looking statements relating to such matters as:

(a) assumptions concerning future economic and business conditions and their effect on the economy in general and on the markets in which the Company and the Bank do business; and

(b) expectations for revenues and earnings for the Company and Bank.

Such forward-looking statements are based on assumptions rather than historical or current facts and, therefore, are inherently uncertain and subject to risk. For those statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Act of 1995.

The Company notes that a variety of factors could cause the actual results or experience to differ materially from the anticipated results or other expectations described or implied by such forward-looking statements. The risks and uncertainties that may effect the operation, performance, development and results of the Company's and Bank's business include the following:

(a) the risk of adverse changes in business conditions in the banking industry generally and in the specific markets in which the Bank operates;
(b) changes in the legislative and regulatory environment that negatively impact the Company and Bank through increased operating expenses;
(c) increased competition from other financial and non-financial institutions; (d) the impact of technological advances; and
(e) other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission.

Such developments could have an adverse impact on the Company's and the Bank's financial position and results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable to smaller reporting companies.

Item 4. Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer concluded that, based upon an evaluation as of June 30, 2008, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to the Company's management including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

During the fiscal quarter ended June 30, 2008 there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. - Legal Proceedings. None

Item 1A. Risk Factors. Not applicable to smaller reporting companies.

Item 2. -Unregistered Sales of Equity Securities and Use of Proceeds. On May 14, 2008, the Company issued 840 shares of common stock to members of its Board of Directors under the terms of the Director Stock Retainer Plan. The shares were issued in a private transaction in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. No cash consideration was received upon issuance of the shares.

Item 3. - Defaults Upon Senior Securities. None

Item 4. - Submission of Matters to a Vote of Security Holders. Incorporated by reference from Form 8-K filed May 16, 2008.

Item 5. - Other Information. None

Item 6. - Exhibits

11 Computation of Earnings per Share.

31.1-Rule 13a-14(a)/15d-14(a) Certification of CEO.

31.2-Rule 13a-14(a)/15d-14(a) Certification of CFO.

32- Section 1350 Certifications of CEO and CFO.

SALISBURY BANCORP, INC.

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 thereunto duly authorized.

Salisbury Bancorp, Inc.

Date: August 11, 2008 by: /s/ John F. Perotti

John F. Perotti
Chief Executive Officer

Date: August 11, 2008 by: /s/ John F. Foley

John F. Foley
Chief Financial Officer