SALISBURY BANCORP INC
Form 10-Q
November 13, 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 September 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 or 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:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
As of November 13, 2008, there were 1,685,861 shares outstanding.

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)
September 30, 2008 and December 31, 2007

	September 30, 2008 (unaudited)
ASSETS	
Cash and due from banks	$ 6,915
Interest bearing demand deposits with other banks	1,445
Money market mutual funds	1,422
Federal funds sold	2,958
Cash and cash equivalents	12,740
Investments in available-for-sale securities (at fair value)	144,482
Investments in held-to-maturity securities (fair values of $67 as of September 30, 2008 and $71 as of December 31, 2007)	68
Federal Home Loan Bank stock, at cost	5,323
Loans held-for-sale	122
Loans, less allowance for loan losses of $3,105 as of September 30, 2008 and $2,475 as of December 31, 2007	293,740
Investment in real estate	75
Other real estate owned	205
Premises and equipment	7,269
Goodwill	9,829
Core deposit intangible	1,206
Accrued interest receivable	2,395
Cash surrender value of life insurance policies	3,780
Other assets	4,416
Total assets	$485,650
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits:	
Noninterest-bearing	$ 69,198
Interest-bearing	275,411
Total deposits	344,609
Securities sold under agreements to repurchase	12,370
Federal Home Loan Bank advances	86,490
Other liabilities	3,461
Total liabilities	446,930
Shareholders' equity:	
Common stock, par value $.10 per share; authorized 3,000,000 shares; issued and outstanding, 1,685,861 shares at September 30, 2008 and 1,685,021 shares at December 31, 2007	169

Paid-in capital	13,158
Retained earnings	34,037
Accumulated other comprehensive loss	(8,644)
Total shareholders' equity	38,720
Total liabilities and shareholders' equity	$485,650

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

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands, except per share data)
(unaudited)

	Nine Months Ended September 30, 2008	2007	Three Sept 2008
Interest and dividend income:			
Interest and fees on loans	$ 13,918	$ 13,273	$ 4,68
Interest on debt securities:			
Taxable	3,988	4,094	1,35
Tax-exempt	1,775	1,745	62
Dividends on equity securities	169	241	3
Other interest	121	46	
Total interest and dividend income	19,971	19,399	6,71
Interest expense:			
Interest on deposits	5,124	6,109	1,48
Interest on securities sold under agreements to repurchase	46	0	4
Interest on Federal Home Loan Bank advances	3,135	3,126	1,05
Total interest expense	8,305	9,235	2,58
Net interest and dividend income	11,666	10,164	4,12
Provision for loan losses	690	0	52
Net interest and dividend income after provision for loan losses	10,976	10,164	3,60
Noninterest income (charge):			
Trust department income	1,684	1,508	54
Loan commissions	2	22	
Service charges on deposit accounts	610	544	20
(Write downs) gains on available-for-sale securities, net	(2,317)	222	(2,67
Gain on sales of loans held-for-sale	236	246	7
Other income	1,026	757	49

Total noninterest income (charge)	1,241	3,299	(1,34
Noninterest expense:			
Salaries and employee benefits	6,225	5,763	2,14
Occupancy expense	721	586	25
Equipment expense	650	584	21
Data processing	1,005	939	31
Insurance	148	121	5
Printing and stationery	201	216	6
Professional fees	651	500	21
Legal expense	282	167	11
Amortization of core deposit intangible	123	123	4
Other expense	1,176	1,026	40
Total noninterest expense	11,182	10,025	3,83
Income (loss) before income taxes	1,035	3,438	(1,57
Income taxes	883	638	33
Net income (loss)	$ 152	$ 2,800	$ (1,91
Earnings (loss) per common share	$ .09	$ 1.66	$ (1.1
Dividends per common share	$ .84	$ .81	$ .2

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)
Nine months ended September 30, 2008 and 2007
(unaudited)

	2008	
Cash flows from operating activities:		
Net income	$ 152	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	57	
Gain on sales of available-for-sale securities, net	(539)	
Write-downs of available-for-sale securities	2,856	
Provision for loan losses	690	
Change in loans held-for-sale	(2)	
Change in deferred loan costs, net	(2)	
Net (increase) decrease in mortgage servicing rights	(1)	
Depreciation and amortization	519	
Amortization of core deposit intangible	123	

Accretion of fair value adjustment on deposits & borrowings	(98)
Amortization of fair value adjustment on loans	36
Decrease (increase) in interest receivable	144
Deferred tax benefit	(138)
(Increase) decrease in taxes receivable	(13)
(Increase) decrease in prepaid expenses	(30)
Increase in cash surrender value of insurance policies	(92)
Increase in income tax payable	0
(Increase) decrease in other assets	(159)
Increase in accrued expenses	213
Decrease in interest payable	(164)
Decrease in other liabilities	(8)
Issuance of shares for Directors' fees	28
(Decrease) increase in unearned income on loans	(1)
Cash and cash equivalents acquired from New York Community Bank net of expenses paid of $115	0
Net cash provided by operating activities	3,571
Cash flows from investing activities	
Purchase of Federal Home Loan Bank stock	(147)
Purchases of available-for-sale securities	(102,304)
Proceeds from sales of available-for-sale securities	94,723
Proceeds from maturities of held-to-maturity securities	3
Loan originations and principal collections, net	(24,372)
Purchase of loans	(1,935)
Recoveries of loans previously charged-off	36
Other real estate owned - expenditures capitalized	(204)
Capital expenditures	(941)
Net cash used in investing activities	(35,141)

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SALISBURY BANCORP INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)
Nine months ended September 30, 2008 and 2007
(unaudited)
(continued)

	2008
Cash flows from financing activities:	
Net increase (decrease) in demand deposits, NOW and savings accounts	24,927
Net increase in time deposits	1,940
Federal Home Loan Bank advances	17,000
Principal payments on advances from Federal Home Loan Bank	(16,786)
Net change in short term advances from Federal Home Loan Bank	(8,637)

Net increase in securities sold under agreements to repurchase	12,370	
Dividends paid	(1,682)	
Net cash provided by financing activities	29,132	
Net decrease in cash and cash equivalents	(2,438)	
Cash and cash equivalents at beginning of period	15,178	
Cash and cash equivalents at end of period	$ 12,740	$
Supplemental disclosures:		
Interest paid	$ 8,567	$
Income taxes paid	1,034	
New York Community Bank Branch Acquisition:		
Cash and cash equivalents acquired		$
Deposits assumed		
Net liabilities assumed		
Acquisition costs		
Goodwill		$

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

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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") formed in April 2004. 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 nine months ended September 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 derived from audited financial statements does not include all disclosures required by GAAP.

NOTE 2 - COMPREHENSIVE (LOSS) INCOME

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 (loss) 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 sources of other comprehensive (loss) income are the net changes in unrealized holding (losses) or gains on securities and the net change in unrecognized pension plan expense.

Comprehensive (Loss) Income

	Nine months ended September 30,		Three months ended September 30,	
	2008	2007	2008	2007
	(amounts in thousands)		(amounts in thousand	
Net income	$ 152	$ 2,800	$(1,912)	$ 91
Net change in unrealized holding (losses) or gains on securities and net change in unrecognized pension plan expense, net of tax during period	(5,325)	(1,775)	(2,403)	96
Comprehensive (loss) income	$(5,173)	$ 1,025	$(4,315)	$ 1,88

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 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 133. The statement also subjects beneficial interests issued by securitization vehicles to the requirements of SFAS No. 133. The statement is effective as of January 1, 2007. The adoption of SFAS 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 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.

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 is 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 157). SFAS 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 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 157 is effective for the Company's consolidated financial statements for the year beginning on January 1, 2008, with earlier adoption permitted. The adoption of this statement did not have a material impact on its financial condition and results of operations. See Note 5.

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 is for fiscal years beginning after December 15, 2007, with earlier application permitted. Companies should 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 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently 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 is 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 141(R)). SFAS 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 141(R) applies prospectively to business combinations for which 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 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are 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 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 nine months and three months ended September 30:

	Nine Months Ended September 30,		Three Months En September 30	
	2008	2007	2008	200
Components of net periodic benefit cost:				
Service cost	$ 302,856	$ 328,305	$ 100,952	$ 109
Interest cost	275,213	256,517	91,738	85
Expected return on plan assets	(320,244)	(276,707)	(106,748)	(92
Amortization of:				
Prior service cost	669	670	223	
Actuarial loss	33,646	51,177	11,215	17
Net periodic benefit cost	$ 292,140	$ 359,962	$ 97,380	$ 119

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

Discount rate	6.00%	6.00%	6.00%
Average wage increase	Graded table*	Graded table*	Graded table
Expected return on plan assets	7.50%	7.25%	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

The fair value hierarchy established by SFAS No. 157 is based on observable and unobservable inputs participants use to price an asset or liability. SFAS No. 157 has prioritized these inputs into the following value hierarchy:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from a corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair value of the asset or liability and are based on the entity's own assumption about the assumptions that market participants would use to price the asset or liability.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general clarification of such instruments pursuant to the valuation hierarchy is set forth below. These valuation methodologies were applied to all of the Company's financial assets and liabilities carried at fair value effective January 1, 2008.

($ in 000s)		Fair Value Measurements at Reporting using		
Description	9/30/08	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
AFS securities	$ 144,482	$0	$144,482	$0
Total	$ 144,482	$0	$144,482	$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 assets at September 30, 2008 totaled $485,650,000 compared to total assets of $461,960,000 at December 31, 2007. During the first nine months of 2008, net loans outstanding, not including loans held-for-sale, increased $25,549,000 or 9.53% to $293,740,000. 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 that was generated as the result of new business development efforts. The growth was funded by an increase in deposits. Non-performing assets totaled $1,796,000 at September 30, 2008. Non-performing loans totaled $1,591,000 at September 30, 2008 or 0.54% of total loans outstanding and Other Real Estate Owned totaled $205,000. This compares to non-performing loans totaling $1,824,000 at December 31, 2007 or 0.68% of total loans outstanding. There were no other non-performing assets at December 31, 2007. 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 September 30, 2008 totaled $344,609,000 as compared to total deposits of $317,741,000 at December 31, 2007. This increase is primarily the result of new business development efforts.

The Company's earnings for the nine months ended September 30, 2008 was $152,000 or $.09 per average share outstanding. This compares to earnings of $2,800,000 or $1.66 per share for the same period in 2007. The Company reported a third quarter loss of $1,912,000 or $1.13 per average share outstanding compared to earnings of $917,000 or $.54 per average share outstanding, in the third quarter

of 2007. Earnings for the respective periods were impacted by a pre-tax charge of $2,856,000 as a result of the U.S. Government placing FHLMC (Freddie Mac) into conservatorship, which necessitated the Company to take a write-down of Freddie Mac preferred stock during the quarter ended September 30, 2008. No tax benefit was recognized as a result of this charge for the quarter ended September 30, 2008, because applicable law at the time forced financial institutions to treat the loss as a capital loss. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was enacted, which includes a provision permitting banks to recognize losses relating to the Freddie Mac preferred stock as an ordinary loss, thereby allowing a tax benefit for both tax and financial reporting purposes. If the legislation permitting this action had been effective in the third quarter rather than the fourth quarter, the positive impact of the tax charge that would have been recorded would have resulted in September 30, 2008 year-to-date earnings of $1,123,000 or $.67 per average share outstanding. The Company will recognize the additional tax benefit totaling approximately $971,000 or $.58 per average share outstanding relating to the write-down of the Freddie Mac preferred stock in the quarter ending December 31,

2008. Earnings, not including the Freddie Mac preferred stock write-down, for the first nine months of 2008 would have totaled $3,008,000 or $1.78 per average share outstanding.

The Bank remains "well capitalized" pursuant to the standards of the Federal Deposit Insurance Corporation. The Bank's total risk based capital ratio was 13.15%; the Tier 1 capital ratio was 12.08% and the leverage ratio was 7.54%. As previously disclosed, on September 2, 2008 the Board of Directors declared a third quarter cash dividend of $.28 per common share, which was paid on October 31, 2008 to shareholders of record as of September 30, 2008. This compared to a cash dividend of $.27 per common share that was paid for the third quarter of 2007. Year-to-date dividends total $.84 per common share outstanding for this year. This compares to total year-to-date dividends of $.81 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."

NINE MONTHS ENDED SEPTEMBER 30, 2008 AS COMPARED TO NINE MONTHS ENDED SEPTEMBER 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 noninterest 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, securities sold under agreements to repurchase and advances from the Federal Home Loan Bank. Noninterest 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)

Nine Months Ended September 30,	2008	2007
Total Interest and Dividend Income (financial statements)	$ 19,971	$ 19,399
Tax Equivalent Adjustment	914	898
Total Interest and Dividend Income (on a FTE basis)	20,885	20,297

Total Interest Expense	8,305	9,235
Net Interest and Dividend Income-FTE	$ 12,580	$ 11,062

Total interest and dividend income on a FTE basis for the nine months ended September 30, 2008, when compared to the same period in 2007, increased $588,000 or 2.90%. The increase was primarily attributable to an increase in earning assets.

Interest expense on deposits for the first nine months of 2008 totaled $5,124,000, a decrease of $985,000 or 16.12% when compared to $6,109,000 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 September 30, 2008 decreased 9.00% when compared to total advances outstanding at December 31, 2007, however overnight borrowings through out the year resulted in an increase of interest expense totaling $9,000. Total interest expense for the nine months ended September 30, 2008 was $8,305,000, a decrease of $930,000 or 10.07% when compared to the same period in 2007.

Overall, net interest and dividend income (on a FTE basis) increased $1,518,000 or 13.72% to $12,580,000 for the period ended September 30, 2008 when compared to the same period in 2007.

Noninterest Income

Noninterest income, not including the write-downs and net gains on sales of available-for-sale securities, totaled $3,558,000 for the nine months ended September 30, 2008. This is an increase of $481,000 or 15.63% compared to noninterest income, not including gains on available-for-sale securities transactions, of $3,077,000 for the nine months ended September 30, 2007. Continuing growth of the Trust/Wealth Advisory Services Division has resulted in increased income of $176,000 or 11.67% to $1,684,000 for the period ended September 30, 2008 compared to income totaling $1,508,000 for the corresponding period in 2007. Write-downs on available-for-sale securities totaled $2,856,000 for the period ended September 30, 2008. As described previously, this is primarily the result of the U.S. Governments actions relating to Freddie Mac. 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 $305,000 or 19.44% to $1,874,000 for the nine months ended September 30, 2008 compared to $1,569,000 for the nine months ended September 30, 2007.

Noninterest Expense

Noninterest expense increased $1,157,000 or 11.54% for the first nine months of 2008 as compared to the same period in 2007. 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 increase in professional fees is primarily attributable to the Trust and Wealth Advisory Services Division working with Bradley Foster and Sargent, Inc., an independent investment advisory firm that assists in providing a broader scope of highly personalized professional investment services to clients. In addition, internal audit expense increased which is the result of additional services required due to compliance requirements of the Sarbanes-Oxley Act. 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	$ 6,225	$ 5,763	$ 462	8.01%
Occupancy expense	721	586	135	23.03
Equipment expense	650	584	66	11.30
Data processing	1,005	939	66	7.02
Insurance	148	121	27	22.31
Printing and stationery	201	216	(15)	(6.94)
Professional fees	651	500	151	30.20
Legal expense	282	167	115	68.86
Amortization of core deposit intangible	123	123	0	0
Other expense	1,176	1,026	150	14.61
Total noninterest expense	$ 11,182	$ 10,025	$ 1,157	11.54

Income Taxes

The income tax provision for the first nine months of 2008 totaled $883,000 in comparison to $638,000 for the same nine-month period in 2007. As mentioned previously, the Emergency Economic Stabilization Act (EESA) enacted in October 2008 will permit a fourth quarter tax benefit of $971,000 for the other-than-temporary impairment recorded in the quarter ended September 30, 2008.

Net Income

The Company's pre tax income, not including write-downs and gains on securities transactions, for the nine month period ended September 30, 2008 would have totaled $3,352,000. This is an increase of $136,000 or approximately 4.23% when compared to pre tax income, not including gains on securities transactions, for the period ended September 30, 2007 that totaled $3,216,000. Net income was $152,000 or $.09 per average share outstanding for the nine months ended September 30, 2008. Net income for the corresponding period in 2007 totaled $2,800,000 or $1.66 per average share outstanding.

THREE MONTHS ENDED SEPTEMBER 30, 2008
AS COMPARED TO THREE MONTHS ENDED SEPTEMBER 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 September 30	2008	2007
Total Interest and Dividend Income (financial statements)	$ 6,712	$ 6,602

Tax Equivalent Adjustment	320	327
Total Interest and Dividend Income (on a FTE basis)	7,032	6,929
Total Interest (Expense)	(2,587)	(3,167)
Net Interest and Dividend Income-FTE	$ 4,445	$ 3,762

Total interest and dividend income on a FTE basis for the three months ended September 30, 2008 increased $103,000 or 1.49% compared to the same period in 2007. The increase was primarily attributable to an increase in earning assets. Interest expense on deposits decreased $602,000 or 28.85% for the quarter to $1,485,000 compared to $2,087,000 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 decreased during the three month period ended September 30, 2008 when compared to the corresponding period in 2007. Interest expense on these advances decreased $24,000 or 2.22% and totaled $1,056,000 for the three months ended September 30, 2008 compared to $1,080,000 for the corresponding period in 2007. Total interest expense for the three months ending

September 30, 2008 was $2,587,000 compared to total interest expense for the same period in 2007 of $3,167,000, a decrease of $580,000 or 18.31%. This decrease is a reflection of an economic environment of generally lower interest rates and a reduction of FHLB borrowings. Overall, net interest and dividend income (on a FTE basis) increased $683,000 or 18.16% to $4,445,000 for the three-month period ended September 30, 2008 when compared to the corresponding period in 2007.

Noninterest Income

Noninterest income not including write-downs on and net gains on sales of available-for-sale securities totaled $1,326,000 for the three months ended September 30, 2008 as compared to $1,018,000 for the three months ended September 30, 2007. This represents an increase of $308,000 or 30.26%. Income from the Trust/Wealth Advisory Services Division increased $68,000 or 14.32% to $543,000 for the third quarter of 2008. This is primarily the result of continued growth in assets under management. Other income which consists primarily of fees associated with transaction accounts, fees related to the origination and servicing of loans and a non recurring premium on the sale of the Bank's credit card portfolio of $183,000 totaled $783,000 for the third quarter of 2008. As previously mentioned, the write-down of Freddie Mac preferred stock following it being put into conservatorship by the U.S. Government, for the quarter ended September 30, 2008 was $2,856,000. Overall, a charge of $1,345,000 was recorded for noninterest income for the three month period ended September 30, 2008. This compares to noninterest income of $1,060,000 for the corresponding period in 2007.

Noninterest Expense

Noninterest expense totaled $3,835,000 for the three month period ended September 30, 2008 as compared to $3,401,000 for the same period in 2007, an increase of $434,000 or 12.76%. Although some increases in noninterest expense are attributable to normal volumes of business, much of the overall increase in the noninterest expense listed in the table below is primarily attributable to additional staffing, and expenses related to the establishment of a new branch

in New York State, which commenced operations in August 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	$ 2,148	$ 1,931	$ 217	11.24%
Occupancy expense	258	206	52	25.24
Equipment expense	219	214	5	2.34
Data processing	310	301	9	2.99
Insurance	58	47	11	23.40
Printing and stationery	66	72	(6)	(8.33)
Professional fees	218	161	57	35.40
Legal expense	116	41	75	182.93
Amortization of core deposit intangible	41	41	0	0
Other expense	401	387	14	3.62
Total non-interest expense	$ 3,835	$ 3,401	$ 434	12.76

Income Taxes

The income tax provision for the three-month period ended September 30, 2008 totaled $337,000 in comparison to $177,000 for the same three month period in 2007. As mentioned previously, the EESA enactment in October 2008 will permit the Company to record a fourth quarter tax benefit of approximately $971,000 for the other-than-temporary impairment recorded in the quarter ended September 30, 2008.

Net Income

The Company's pre tax income, not including write-downs and gains on sales of securities, for the three month period ended September 30, 2008 would have totaled $1,096,000. This is an increase of $44,000 when compared to pre tax income, not including gains on securities transactions for the corresponding three month period ended September 30, 2007, that totaled $1,052,000. Overall, the Company reported a net loss totaling $1,912,000 or $1.13 per average share outstanding for the three months ended September

30, 2008. Net income for the corresponding period in 2007 totaled $917,000 or $0.54 per average share outstanding.

FINANCIAL CONDITION

Total assets at September 30, 2008 were $485,650,000, compared to $461,960,000 at December 31, 2007, an increase of 5.13%. The increase is primarily the result of an increase in earning assets during the period that were funded by growth in deposits.

Investment Securities

The make up of the investment 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. The portfolio

does not include securities collateralized by pools of sub-prime mortgages. During the nine months ended September 30, 2008, the investment portfolio, including Federal Home Loan Bank stock, decreased $2,751,000 or 1.80% to $149,873,000 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 in the portfolio 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 holding 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 September 30, 2008, the unrealized loss net of tax was $7,620,000. This compares to an unrealized loss net of tax of $2,273,000 at December 31, 2007. As previously discussed, the U.S. Government placing Freddie Mac into conservatorship necessitated the write-down of Freddie Mac preferred stock during the quarter. The amortized cost basis of the investment which was made in 2003 was $2,975,000. This represented approximately 1.8% of the total investment securities portfolio. Management deems the remaining securities in the portfolio 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.

Lending

Net loans outstanding (not including loans held for sale) totaled $293,740,000 at September 30, 2008 compared to net loans outstanding (not including loans held for sale) of $268,191,000 at December 31, 2007. This is an increase in net loans of $25,549,000 or 9.53%. 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 September 30, 2008 to December 31, 2007:

	September 30, 2008	December 31, 2007
	(amounts in thousands)	
Commercial, financial and agricultural	$ 19,239	$ 20,629
Real estate-construction and land development	35,690	28,928
Real estate-residential	174,250	158,600
Real estate-commercial	60,966	53,823
Consumer	5,935	8,005
Other	457	376
	296,537	270,361
Deferred costs, net	308	306
Unearned income	0	(1)
Allowance for loan losses	(3,105)	(2,475)
Net Loans	$ 293,740	$ 268,191

Provision 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 or reserve for loan and lease losses through charges to earnings. For the first nine-month period of 2008, the provision for loan losses was $690,000. There was no provision for loan losses in 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 September 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 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 and/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, based on 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

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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.

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 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 nonaccrual status along with loans that are 90 days or more past due and still accruing, are closely monitored by management. At September 30, 2008, nonperforming loans totaled $1,591,000 or 0.54% of total loans outstanding of $296,537,000, which does not include loans held for sale. In addition, while currently performing and secured, the Company has concerns relating to the timely repayment of a loan in the amount of $3,400,000 which is the subject of litigation. (See Legal Proceedings.) The allowance for loan losses totaled $3,105,000 representing 195.16% of nonperforming loans. Nonperforming loans totaled $1,824,000 or 0.67% of total loans outstanding, (which does not include loans held for sale) of $270,361,000 at December 31, 2007. The allowance for loan losses totaled $2,475,000 at December 31, 2007 and represented 135.69% of nonperforming loans. A total of $95,000 of loans were charged off by the Bank during the nine months ended September 30, 2008. These charged-off loans consisted primarily of consumer loans. This compares to loans charged off during the nine-month period ended September 30, 2007 that totaled $72,000. A total of $36,000 of previously charged-off loans was recovered during the nine month period ended September 30, 2008. Recoveries for the same period in 2007 totaled $53,000. 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. At September 30, 2008, the Bank had other real estate owned ("OREO") in the amount of $205,000.

Deposits

The Company offers a variety of deposit accounts with a range of interest rates and terms. The following table illustrates the composition of the Company's deposits at September 30, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
	(amounts in thousands)	
Demand	$ 69,198	$ 69,215
NOW	27,121	23,652
Money Market	60,578	56,210
Savings	69,724	52,616
Time	117,988	116,048
Total Deposits	$344,609	$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 September 30, 2008, the Company had $86,490,000 in outstanding advances from the Federal Home Loan Bank compared to $95,011,000 at

December 31, 2007. In addition, the Company began offering securities sold under agreements to repurchase as part of its operating strategy. At September 30, 2008 they totaled $12,370,000. Management expects that it will continue these strategies of supplementing deposit growth.

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 September 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	$ 2,196	$	$ 3	$ 28,059
Commercial related	3,650	5,502	77	14,973
Consumer related				1,302
Standby letters of credit	29			
Total	$ 5,875	$ 5,502	$ 80	$ 44,334

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 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 September 30, 2008, the Company maintains a liability sensitive (negative gap) position. This would suggest that during a period of declining interest rates, the Company would be in a better position to increase net interest income. To the contrary, during a period of rising interest rates, a negative gap would result in a decrease in interest income. The level of interest rate risk at September 30, 2008 is 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 September 30, 2008, the Company had approximately $55,791,000 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 September 30, 2008, the Company had $38,720,000 in shareholders' equity, a decrease of 15.02% 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 nine-month period ended September 30, 2008 totaled $152,000. Securities in the investment 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 September 30, 2008 resulted in accumulated other comprehensive loss net of tax totaling $7,620,000. Changes in unrecognized pension plan expense per SFAS No. 158, resulted in accumulated other comprehensive loss net of tax of $1,024,000 for the nine month period ended September 30, 2008.

A review and analysis of securities determined that, as a result of the U.S. Government placing FHLMC (Freddie Mac) into conservatorship, the Company needed to take a write-down of Freddie Mac preferred stock during the quarter ended September 30, 2008. Earnings for the period were impacted by pre-tax charges of $2,856,000. No other credit deterioration was revealed and the unrealized loss on securities available-for-sale is due to the current interest rate

environment, and management deems the remaining securities to be not other than temporarily impaired. The Company has declared three quarterly dividends resulting in a decrease in capital of $1,890,000. 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 Company and the Bank are considered to be "well capitalized" for capital adequacy purposes. As a result, the Bank pays lower federal deposit insurance premiums than those banks that are not "well capitalized." 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 September 30, 2008, the Company had a total risk based capital ratio of 13.15% 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.

Impact of Inflation and Changing Prices

The Company's consolidated financial statements are prepared in conformity with generally accepted accounting principles that 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 impacts 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.

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

Item 3. Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer concluded that, based upon an evaluation as of September 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. During the quarter ended September 30, 2008 there were no changes in the Company's internal control over financial reporting that 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.

The Bank is a party defendant, both in its capacity as Salisbury Bank & Trust Company and in its capacity as the Trustee of the Erling C. Christophersen Revocable Trust, in litigation currently pending in the Connecticut Superior Court within the Judicial District of Bridgeport, John R. Christophersen v Erling C Christophersen et. al. commenced May 29, 2008. The other parties to the litigation are the Plaintiff, John R. Christophersen of Norwalk, Connecticut and the Defendants, Erling C. Christophersen, of Westport, Connecticut; Bonnie Christophersen of Westport, Connecticut, Elena Dreiske of Wanetka, Illinois, and People's United Bank with its principal place of business in Bridgeport, Connecticut.

The litigation involves the ownership of certain real property located within Westport, Connecticut, which was conveyed by the Defendant, Erling Christophersen, to the Erling Christophersen Trust, of which the Bank is a co-Trustee. Subsequent to this conveyance, the Bank loaned $3,386,609, to the Erling Christophersen Trust which was secured by an open-end commercial mortgage in favor of the Bank on the Westport real estate

referenced above.

The claim of the Plaintiff John R. Christophersen is that he had an interest in the real property of which he was wrongfully divested. He has brought this action seeking restoration of his allegedly divested interest as well as money damages.

In addition to his efforts to restore his alleged interest in the real property, the Plaintiff has made two additional claims directed at the Bank. The Plaintiff has alleged that Salisbury failed to utilize reasonable diligence in extending financing to the Co-Defendant, Erling, and that had it engaged in reasonable diligence it would've discovered that the Plaintiff had an interest in the above referenced property. He has also alleged an implied trust against the Bank alleging that it acquired title to the property adverse to the Plaintiff's interest and in contravention of the Plaintiffs entitlements, and therefore holds the property in trust for Plaintiff.

The Bank disputes the claims made by the Plaintiff and is vigorously defending the case. At the inception of this loan, the Bank obtained a Lender's Title Insurance policy from the Chicago Title and Insurance Company. Additionally, at the time of this financing, the appraised value of the aforementioned real estate was significantly in excess of the loan amount. Given current economic conditions, the Bank continues to monitor the value of its collateral position which remains well in excess of the outstanding loan balance. While the underlying loan is currently performing, until the litigation is resolved, the liquidity of the real estate collateral which secures the loan is diminished.

Item 1A. Risk Factors. Not applicable

Item 2. -Unregistered Sales of Equity Securities and Use of Proceeds. Not applicable

Item 3. - Defaults Upon Senior Securities. Not applicable

Item 4. - Submission of Matters to a Vote of Security Holders. Not applicable

Item 5. - Other Information. Not applicable

Item 6. - Exhibits

11 Computation of Earnings per Share.

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

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

32- Section 1350 Certifications

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: November 13, 2008 by: /s/ John F. Perotti
John F. Perotti
Chief Executive Officer

Date: November 13, 2008 by: /s/ John F. Foley
John F. Foley
Chief Financial Officer