

Edgar Filing: SALISBURY BANCORP INC - Form 10-Q

SALISBURY BANCORP INC  
Form 10-Q  
November 13, 2007

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007  
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OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
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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  No

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in

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Rule 12b-2 of the Exchange Act).

Yes  No

## 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, 2007, there were 1,685,021 shares outstanding.

## SALISBURY BANCORP, INC. AND SUBSIDIARY

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Part I-- FINANCIAL INFORMATION  
Item 1. Financial Statements

SALISBURY BANCORP, INC. AND SUBSIDIARY  
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CONDENSED CONSOLIDATED BALANCE SHEETS  
-----

(amounts in thousands, except per share data)  
September 30, 2007 and December 31, 2006  
-----

	September 30, 2007 ----- (unaudited)
ASSETS	
Cash and due from banks	\$ 6,922
Interest bearing demand deposits with other banks	149
Money market mutual funds	1,322
Federal funds sold	547
	-----
Cash and cash equivalents	8,940
Investments in available-for-sale securities (at fair value)	153,234
Investments in held-to-maturity securities (fair values of \$72 as of September 30, 2007 and \$75 as of December 31, 2006)	72
Federal Home Loan Bank stock, at cost	5,159
Loans held-for-sale	115
Loans, less allowance for loan losses of \$2,455 as of September 30, 2007 and \$2,474 as of December 31, 2006	262,195
Investment in real estate	75
Premises and equipment	6,875
Goodwill	9,825
Core deposit intangible	1,370
Accrued interest receivable	2,586
Cash surrender value of life insurance policies	3,646
Other assets	2,394
	-----
Total assets	\$ 456,486 =====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits:	
Noninterest-bearing	
Interest-bearing	\$ 65,669
Total deposits	247,419

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Due to broker	313,088
Federal Home Loan Bank advances	0
Other liabilities	95,143
Total liabilities	4,215
Shareholders' equity:	412,446
Common stock, par value \$.10 per share; authorized 3,000,000 shares; issued and outstanding, 1,685,021 shares at September 30, 2007 and 1,683,341 shares at December 31, 2006	169
Paid-in capital	13,130
Retained earnings	35,038
Accumulated other comprehensive loss	(4,297)
Total shareholders' equity	44,040
Total liabilities and shareholders' equity	\$ 456,486

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)  
September 30, 2007 and 2006  
(unaudited)

	Nine Months Ended September 30, 2007	September 30, 2006	Three Months September 2007	
	-----	-----	-----	-----
Interest and dividend income:	\$13,273	\$11,471	\$ 4,537	\$
Interest and fees on loans				
Interest on debt securities:	4,094	3,967	1,337	
Taxable	1,745	1,652	634	
Tax-exempt	241	211	82	
Dividends on equity securities	46	60	12	
Other interest				
Total interest and dividend income	19,399	17,361	6,602	
Interest expense:				
Interest on deposits	6,109	4,843	2,087	
Interest on Federal Home Loan Bank advances	3,126	2,609	1,080	
Total interest expense	9,235	7,452	3,167	

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Net interest and dividend income	10,164	9,909	3,435	
	-----	-----	-----	-----
Provision for loan losses	0	0	0	
	-----	-----	-----	-----
Net interest and dividend income after provision for loan losses	10,164	9,909	3,435	
	-----	-----	-----	-----
Noninterest income:				
Trust department income	1,508	1,410	475	
Loan commissions	22	80	9	
Service charges on deposit accounts	544	527	183	
Gain on sales of available-for-sale securities, net	222	294	42	
Gain on sales of loans held-for-sale	246	290	79	
Other income	757	638	272	
	-----	-----	-----	-----
Total noninterest income	3,299	3,239	1,060	
	-----	-----	-----	-----
Noninterest expense:				
Salaries and employee benefits	5,763	5,262	1,931	
Occupancy expense	586	538	206	
Equipment expense	584	586	214	
Data processing	939	869	301	
Insurance	121	95	47	
Printing and stationery	216	183	72	
Professional fees	500	303	161	
Legal expense	167	94	41	
Amortization of core deposit intangible	123	123	41	
Other expense	1,026	877	387	
	-----	-----	-----	-----
Total noninterest expense	10,025	8,930	3,401	
	-----	-----	-----	-----
Income before income taxes	3,438	4,218	1,094	
Income taxes	638	905	177	
	-----	-----	-----	-----
Net income	\$ 2,800	\$ 3,313	\$ 917	\$
	=====	=====	=====	=====
Earnings per common share	\$ 1.66	\$ 1.97	\$ .54	\$
	-----	-----	-----	-----
Dividends per common share	\$ .81	\$ .78	\$ .27	\$
	-----	-----	-----	-----

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 CASH FLOWS

(amounts in thousands)  
 Nine months ended September 30, 2007 and 2006  
 (unaudited)

2007

Cash flows from operating activities:

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Net income	\$ 2,800	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	70	
Gain on sales of available-for-sale securities, net	(222)	
Provision for loan losses	0	
Change in loans held-for-sale	189	
Change in deferred loan costs, net	(101)	
Net decrease in mortgage servicing rights	89	
Depreciation and amortization	403	
Amortization of core deposit intangible	123	
Accretion of fair value adjustment on deposits & borrowings	(98)	
Amortization of fair value adjustment on loans	59	
Decrease in interest receivable	(112)	
Deferred tax benefit	(1,085)	
Decrease in taxes receivable	317	
Decrease (increase) in prepaid expenses	978	
Increase in cash surrender value of insurance policies	(91)	
Increase in income tax payable	254	
Decrease (increase) in other assets	87	
Increase (decrease) in accrued expenses	95	
Increase in interest payable	(60)	
Decrease in other liabilities	(130)	
Issuance of shares for Directors' fees	30	
Decrease in unearned income on loans	4	
Cash and cash equivalents acquired from New York Community Bank net of expenses paid of \$115	181	
	-----	
Net cash provided by operating activities	3,780	
	-----	
Cash flows from investing activities		
(Purchase) redemption of Federal Home Loan Bank stock	(495)	
Purchases of available-for-sale securities	(52,271)	
Proceeds from sales of available-for-sale securities	51,371	
Proceeds from maturities of available-for-sale securities	0	
Proceeds from maturities of held-to-maturity securities	3	
Loan originations and principal collections, net	(6,013)	
Purchase of loans	(3,733)	
Recoveries of loans previously charged-off	53	
Capital expenditures	(1,318)	
	-----	
Net cash used in investing activities	(12,403)	
	-----	

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

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(continued)

	2007	2006
	-----	-----
Cash flows from financing activities:		
Net decrease in demand deposits, NOW and savings accounts	(2,312)	(6,957)
Net increase in time deposits	1,319	27,598
Federal Home Loan Bank advances	21,000	10,000
Principal payments on advances from Federal Home Loan Bank	(16,404)	(10,227)
Net change in short term advances from Federal Home Loan Bank	3,551	1,631
Dividends paid	(1,348)	(1,296)
	-----	-----
Net cash provided by financing activities	5,806	20,749
	-----	-----
Net decrease in cash and cash equivalents	(2,817)	(1,838)
Cash and cash equivalents at beginning of period	11,757	10,204
	-----	-----
Cash and cash equivalents at end of period	\$ 8,940	\$ 8,366
	=====	=====
Supplemental disclosures:		
Interest paid	\$ 9,393	\$ 7,500
Income taxes paid	1,152	844
New York Community Bank Acquisition:		
Cash and cash equivalents acquired	\$ 296,060	
Deposits assumed	496,060	
	-----	
Net assets acquired	(200,000)	
Acquisition costs	115,207	
	-----	
Goodwill	\$ 315,207	

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

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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

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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, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2006 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 INCOME

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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 sources of other comprehensive income are the net unrealized holding gain (loss) on securities and the minimum pension liability adjustment.

#### Comprehensive Income

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	-----	-----	-----	-----
	(amounts in thousands)		(amounts in thousands)	
Net income	\$ 2,800	\$ 3,313	\$ 917	\$ 1,160
Net change in unrealized holding (losses) or gains on securities and minimum pension liability adjustment, net of tax during period	(1,775)	1,365	967	3,112
	-----	-----	-----	-----
Comprehensive income	\$ 1,025	\$ 4,678	\$ 1,884	\$ 4,272
	=====	=====	=====	=====

### NOTE 3 - IMPACT OF NEW ACCOUNTING STANDARDS

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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 is not expected to have a material impact on the Company's financial condition and

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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. SFAS 156 is effective as of an entity's first fiscal year beginning after September 15, 2006. The Company does not expect this statement to have a material impact on its 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 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 Company does not expect the adoption of this statement to have a material impact on its financial condition and results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132 (R)" ("SFAS 158"). SFAS 158 requires 1) the recognition of an asset or liability for the over-funded or under-funded status of a defined benefit plan, 2) the recognition of actuarial gains and losses and prior service costs and credits in other comprehensive income, 3) measurement of plan assets and benefit obligations as of the employer's balance sheet date, rather than at interim measurement dates as currently allowed, and 4) disclosure of additional information concerning actuarial gains and losses and prior service costs and credits recognized in other comprehensive income. This statement is effective for financial statements with fiscal years ending after December 15, 2006. The Company does not believe the adoption of this Statement will have a material impact on the Company's financial position or result 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 is for fiscal years beginning after December 15, 2007, with earlier application permitted. Companies should

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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 Company is currently evaluating and has not yet determined the impact the new EITF is expected to have on its financial position, results of operations or cash flow.

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 Company is currently evaluating the impact the new standard is expected to have on its financial position.

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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 Ended September 30,	
	2007	2006	2007	2006
Components of net periodic benefit cost:				
Service cost	\$ 328,305	\$ 322,526	\$ 109,435	\$ 79,661
Interest cost	256,517	238,733	85,506	75,237
Expected return on plan assets	(276,707)	(221,699)	(92,236)	(78,866)
Amortization of:				
Prior service cost	670	670	223	223
Actuarial loss	51,177	66,896	17,059	18,633
Net periodic benefit cost	\$ 359,962	\$ 407,126	\$ 119,987	\$ 94,888

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*
Expected return on plan assets	7.50%	7.25%	7.50%	7.25%

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

### 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 includes a Trust and Investment Services Division, and operates eight (8) full service offices located in the towns of Canaan, Lakeville, Salisbury and Sharon, Connecticut, Sheffield and South Egremont, Massachusetts and Dover Plains, 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 for providing personalized financial products and services to better serve customers in the tri-state area. This discussion should be read in conjunction with Salisbury Bancorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006.

#### RESULTS OF OPERATIONS

#### Overview

-----

The Company's net income for the nine months ended September 30, 2007 was \$2,800,000. This compares to earnings of \$3,313,000 for the same period in 2006. Earnings per share for the nine months ended September 30, 2007 totaled \$1.66 per share, which compared to earnings per share of \$1.97 for the corresponding period in 2006. The decrease in earnings is primarily attributable to an increase in interest expense and additional staff to support new marketing strategies, our growth and expansion into New York State. The Company's assets at September 30, 2007 totaled \$456,486,000 compared to total assets of \$450,339,000 at December 31, 2006. Deposits at September 30, 2007 totaled \$313,088,000 as compared to total deposits of \$313,586,000 at December 31, 2006. The Bank and the Company are "well capitalized". The Company's total risk based capital ratio was 15.23%; the Tier 1 capital

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ratio was 14.27% and the leverage ratio was 8.37%. The Board of Directors declared a third quarter cash dividend of \$.27 per common share, which was paid on October 31, 2007 to shareholders of record as of September 28, 2007. This compared to a cash dividend of \$.26 per common share that was paid for the third quarter of 2006. Year-to-date dividends total \$.81 per common share outstanding for this year. This compares to total year-to-date dividends of \$.78 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

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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, 2007  
AS COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2006

### 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 on the loan and securities portfolio and interest paid on deposits and advances from the Federal Home Loan Bank. Non-interest income is primarily derived from the trust and investment 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,	2007	2006
	-----	-----
Total Interest and Dividend Income (financial statements)	\$19,399	\$17,361
Tax Equivalent Adjustment	898	851
	-----	-----
Total Interest and Dividend Income (on an FTE basis)	20,297	18,212
Total Interest Expense	9,235	7,452
	-----	-----
Net Interest and Dividend Income-FTE	\$11,062	\$10,760
	=====	=====

Total interest and dividend income on a FTE basis for the nine months ended September 30, 2007, when compared to the same period in 2006, increased \$2,085,000 or 11.45%. The increase was primarily attributable to generally higher interest rates during the first nine months of 2007.

Interest expense on deposits for the first nine months of 2007 totaled \$6,109,000, an increase of \$1,266,000 or 26.14%, which compared to \$4,843,000 for the same period in 2006. This increase reflects generally higher interest rates during the first nine months of 2007 and an increase in interest bearing deposits. During the nine-month period ended September 30, 2007, interest expense on Federal Home Loan Bank advances increased \$517,000 or 19.82% to \$3,126,000. This increase in interest expense is primarily attributable to the increased balance of Federal Home Loan Bank advances throughout the first nine months of 2007. Total interest expense for the nine months ended September 30, 2007 was \$9,235,000, an increase of \$1,783,000 or 23.93% when compared to the same period in 2006.

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Overall, net interest and dividend income (on an FTE basis) increased \$302,000 or 2.81% to \$11,062,000 for the nine months ended September 30, 2007 when compared to the same period in 2006.

### Noninterest Income

Noninterest income totaled \$3,299,000 for the nine months ended September 30, 2007. This is an increase of \$60,000 or 1.85% compared to noninterest income of \$3,239,000 for the nine months ended September 30, 2006. Gains on sales of available-for-sale securities, net totaled \$222,000 for the first nine months of 2007 which compares to \$294,000 for the corresponding period in 2006. This decrease is primarily the result of the movement of market rates during the quarter. Continuing growth of the trust and investment services division resulted in an increase in trust income of \$98,000 or 6.95% to \$1,508,000 for the first nine months of 2007, which compares to \$1,410,000 for the same period in 2006. This increase is primarily attributable to an increase in assets under management. Other income increased by \$119,000 when comparing the first nine months of 2007 to the same period in 2006. This category of income 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.

### Noninterest Expense

Noninterest expense increased 12.26% for the first nine months of 2007 as compared to the same period in 2006. Although there are some increases in noninterest expenses that are attributable to normal volumes of business, much of the overall increases in the noninterest expenses listed in the table below reflect expenses associated with the Bank's entry into New York State through the establishment of a branch office in Dover Plains, New York, which opened its doors for business on August 1, 2007. The components of noninterest expense and the changes in the period were as follows (amounts in thousands):

	2007	2006	Change%	Change
Salaries and employee benefits	\$ 5,763	\$ 5,262	\$ 501	9.52
Occupancy expense	586	538	48	8.92
Equipment expense	584	586	(2)	(.34)
Data processing	939	869	70	8.06
Insurance	121	95	26	27.37
Printing and stationery	216	183	33	18.03
Professional fees	500	303	197	65.02
Legal expense	167	94	73	77.66
Amortization of core deposit intangible	123	123	0	0
Other expense	1,026	877	149	16.99
	-----	-----	-----	-----
Total noninterest expense	\$10,025	\$ 8,930	\$ 1,095	12.62
	=====	=====	=====	=====

### Income Taxes

The income tax provision for the first nine months of 2007 totaled \$638,000 in comparison to \$905,000 for the same nine-month period in 2006. Pretax income in 2007 was \$3,438,000 and included tax-exempt income totaling \$1,745,000. Pretax income in 2006 was \$4,218,000 and included tax-exempt income totaling \$1,652,000. The decrease in the income tax provision is primarily attributable to a decrease in taxable income.

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### Net Income

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Overall, net income totaled \$2,800,000 for the nine months ended September 30, 2007 and represents earnings of \$1.66 per average share outstanding. This compares to net income of \$3,313,000 or \$1.97 per average share outstanding for the same period in 2006.

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### THREE MONTHS ENDED SEPTEMBER 30, 2007 AS COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2006

### Net Interest and Dividend Income

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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	2007	2006
	-----	-----
Total Interest and Dividend Income (financial statements)	\$6,602	\$6,111
Tax Equivalent Adjustment	327	307
	-----	-----
Total Interest and Dividend Income (on an FTE basis)	6,929	6,418
Total Interest Expense	3,167	2,754
	-----	-----
Net Interest and Dividend Income-FTE	\$3,762	\$3,664
	=====	=====

Total interest and dividend income on an FTE basis for the three months ended September 30, 2007 increased \$511,000 or 7.96% compared to the same period in 2006. The increase was primarily attributable to an economic environment with generally higher interest rates. Interest expense on deposits increased \$201,000 or 10.66% for the quarter to \$2,087,000 compared to \$1,886,000 for the same quarter in 2006. This increase is primarily the result of an economic environment of higher interest rates coupled with an increase in interest bearing deposits. The Bank's volume of Federal Home Loan Bank advances has increased during the three month period ended September 30, 2007 when compared to the corresponding period in 2006. Interest expense on these advances have increased \$212,000 or 24.42% and totaled \$1,080,000 for the three months ended September 30, 2007 compared to \$868,000 for the corresponding period in 2006. Total interest expense for the three months ending September 30, 2007 was \$3,167,000 compared to total interest expense for the same period in 2006 of \$2,754,000, an increase of \$413,000 or 15.00%. This increase is a reflection of an economic environment of higher interest rates and the result of increased advances from the Federal Home Loan Bank. Overall, net interest and dividend income (on a FTE basis) increased \$98,000 or 2.67% to \$3,762,000 for the three-month period ended September 30, 2007 when compared to the corresponding period in 2006.

### Noninterest Income

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Noninterest income totaled \$1,060,000 for the three months ended September 30,

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2007 as compared to \$1,213,000 for the three months ended September 30, 2006. This decrease of \$153,000 or 12.61% is primarily attributable to fewer opportunities to generate income from gains in securities and loan transactions. Income from the trust and investment services division remained stable for the third quarter of 2007 compared to the same period in 2006. Gains on sales of available-for-sale securities, net totaled \$42,000 for the third quarter of 2007. This compares to gains on sales of available-for-sale securities of \$233,000 for the corresponding period in 2006. This decrease is primarily the result of the movement of market rates during the quarter. Other non-interest income is primarily related to fees associated with transaction accounts and fees related to the origination and servicing of mortgage loans and gains related to the sale of mortgage loans. The volume of these transactions are driven primarily by consumer demand, which results in variances from quarter to quarter.

### Noninterest Expense

Non interest expense totaled \$3,401,000 for the three month period ended September 30, 2007 as compared to \$3,101,000 for the same quarter in 2006, an increase of \$300,000 or 9.67%. Although there are some increases in noninterest expenses that are attributable to normal volumes of business, as mentioned previously, increases in the noninterest expenses listed in the table below are primarily 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 non-interest expense and the changes in the quarter were as follows (amounts in thousands):

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	2007	2006	Change%	Change
Salaries and employee benefits	\$1,931	\$1,852	\$ 79	4.27
Occupancy expense	206	186	20	10.75
Equipment expense	214	205	9	4.39
Data processing	301	259	42	16.22
Insurance	47	32	15	46.88
Printing and stationery	72	54	18	33.33
Professional fees	161	123	38	30.89
Legal expense	41	31	10	32.26
Amortization of core deposit intangible	41	41	0	0
Other expense	387	318	69	21.70
	-----	-----	-----	-----
Total non-interest expense	\$3,401	\$3,101	\$ 300	9.67
	=====	=====	=====	=====

### Income Taxes

The income tax provision for the three-month period ended September 30, 2007 totaled \$177,000 in comparison to \$309,000 for the same three-month period in 2006. The decrease in the income tax provision is attributable to a decrease in taxable income.

### Net Income

Overall, net income totaled \$917,000 for the three months ended September 30, 2007 and represents earnings of \$.54 per average share outstanding. This compares to net income of \$1,160,000 for the same quarter in 2006, a decrease of \$243,000 or 20.95% and compares to earnings per average share outstanding of

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\$.69 for the same quarter in 2006.

### FINANCIAL CONDITION

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Total assets at September 30, 2007 were \$456,486,000, compared to \$450,339,000 at December 31, 2006, an increase of 1.36%. The increase is primarily the result of an increase in earning assets during the period.

### Investment Securities

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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, 2007, the investment portfolio, including Federal Home Loan Bank stock, decreased \$2,767,000 or 1.72% to \$158,465,000 from \$161,232,000 at December 31, 2006.

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, 2007, the unrealized loss net of tax was \$2,999,000. This compares to an unrealized loss net of tax of \$1,190,000 at December 31, 2006. 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

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Total loans outstanding of \$264,381,000 at September 30, 2007 compares to total loans outstanding of \$254,773,000 at December 31, 2006. This increase of \$9,608,000 or 3.77% includes a January 2007 maturity of \$12,000,000 in Term Federal Funds. Excluding this maturity, there is an increase in loans of \$21,608,000 or 8.90%. 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.

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The following table represents the composition of the loan portfolio comparing September 30, 2007 to December 31, 2006:

	September 30, 2007	December 31, 2006
	-----	-----
	(amounts in thousands)	
Commercial, financial and agricultural	\$ 18,722	\$ 16,465
Real estate-construction and land development	29,273	21,169

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Real estate-residential	155,239	145,395
Real estate-commercial	51,617	50,859
Consumer	8,441	8,816
Term federal funds	0	12,000
Other	1,089	69
	-----	-----
	264,381	254,773
Deferred costs, net	270	168
Unearned income	(1)	(3)
Allowance for loan losses	(2,455)	(2,474)
	-----	-----
Net Loans	\$ 262,195	\$ 252,464
	=====	=====

Provisions and Allowance for Loan Losses

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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. No provisions for loan losses for the first nine-month period of 2007 or the comparable period in 2006 were warranted.

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, 2007. 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 collateral dependent. Specifically identifiable and quantifiable losses are immediately charged off against the allowance.

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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.

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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 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, 2007, nonperforming loans totaled \$1,103,000 or 0.42% of total loans outstanding of \$264,381,000. The allowance for loan losses totaled \$2,455,000 representing 222.57% of nonperforming loans. Nonperforming loans totaled \$964,000 or 0.38% of total loans outstanding of \$254,773,000 at December 31, 2006. The allowance for loan losses totaled \$2,474,000 at December 31, 2006 and represented 256.64% of nonperforming loans. A total of \$72,000 of loans were charged off by the Bank during the nine months ended September 30, 2007. These charged-off loans consisted primarily of consumer loans. This compares to loans charged off during the nine-month period ended September 30, 2006 that totaled \$89,000. A total of \$53,000 of previously charged-off loans was recovered during the nine month period ended September 30, 2007. Recoveries for the same period in 2006 totaled \$43,000. 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

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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, 2007 and December 31, 2006:

	September 30, 2007	December 31, 2006
	-----	-----
	(amounts in thousands)	
Demand	\$ 65,669	\$ 70,502
NOW	23,207	21,461
Money Market	54,297	57,015
Savings	48,234	44,246
Time	121,681	120,362
	-----	-----
Total Deposits	\$ 313,088	\$ 313,586
	=====	=====

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

### Borrowings

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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, 2007, the Company had \$95,143,000 in outstanding advances from the Federal Home Loan Bank compared to \$87,093,000 at December 31, 2006. 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

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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, 2007:

(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	\$ 6,196	\$ 402	\$ 3,529	\$ 24,870
Commercial related	3,649	696		7,493
Consumer related				9,559
Standby letters of credit		13		
-----				
Total	\$ 9,845	\$ 1,111	\$ 3,529	\$ 41,922
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Interest Rate Risk

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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

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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, 2007, 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, 2007 is within the limits approved by the Board of Directors.

### Liquidity

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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, 2007, the Company had approximately \$55,365,000 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

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At September 30, 2007, the Company had \$44,040,000 in shareholders' equity, a decrease of 0.70% when compared to December 31, 2006 shareholders' equity totaling \$44,349,000. Several components contributed to the change since December 31, 2006. Earnings for the nine-month period ended September 30, 2007 totaled \$2,800,000. 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, 2007 resulted in other comprehensive loss net of tax totaling \$2,999,000. The application of SFAS No. 158, as defined in Note 3, resulted in comprehensive income net of tax of \$1,298,000 for the nine month period ended September 30, 2007.

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A review and analysis of securities 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 \$1,440,000. 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 \$30,000. 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 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 September 30, 2007, the Company had a total risk based capital ratio of 15.23% compared to 15.53% at December 31, 2006. 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 Company and Bank are adequate to continue to meet the foreseeable capital needs of the institutions.

### Impact of Inflation and Changing Prices

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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

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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.

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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;

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- (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.

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.

The main components of market risk for the Company are interest rate risk and liquidity risk. The Company manages interest rate risk and liquidity risk through an ALCO Committee comprised of outside Directors and senior management. The committee monitors compliance with the Bank's Asset/Liability Policy, which provides guidelines to analyze and manage the interest rate sensitivity gap, which is the difference between the amount of assets and the amounts of liabilities, which mature or reprice during specific periods. Model simulation is used to measure earnings volatility under both rising and falling rate scenarios. Please refer to Interest Rate Risk and Liquidity under Item 2. The Company's interest rate risk and liquidity position as of September 30, 2007 has not significantly changed from year-end 2006.

### Item 4. Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer concluded that, based upon an evaluation as of September 30, 2007, 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, 2007 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.

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## Part II - OTHER INFORMATION

Item 1. - Legal Proceedings. Not applicable

Item 1A. Risk Factors. Not applicable

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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, 2007  
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by: /s/ John F. Perotti  
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John F. Perotti  
Chief Executive Officer

Date: November 13, 2007  
-----

by: /s/ John F. Foley  
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John F. Foley  
Chief Financial Officer