SALISBURY BANCORP INC
Form 10-Q
August 14, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

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. 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 [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 August 10, 2007, there were 1,685,021 shares outstanding.

SALISBURY BANCORP, INC. AND SUBSIDIARY

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SALISBURY BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	June 30, 2007 (unaudited)
ASSETS	
Cash and due from banks	$ 5,925
Interest-bearing demand deposits with other banks	1,025
Money market mutual funds	1,293
Federal funds sold	200
Cash and cash equivalents	8,443
Investments in available-for-sale securities (at fair value)	150,848
Investments in held-to-maturity securities (fair values of $73 as of June 30, 2007 and $75 as of December 31, 2006)	73
Federal Home Loan Bank stock, at cost	5,083
Loans held-for-sale	0
Loans, less allowance for loan losses of $2,452 as of June 30, 2007 and $2,474 as of December 31, 2006	251,487
Investment in real estate	75
Premises and equipment	6,626
Goodwill	9,509
Core deposit intangible	1,411
Accrued interest receivable	2,505
Cash surrender value of life insurance policies	3,615
Other assets	2,778
Total assets	$442,453
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits:	
Noninterest-bearing	$ 66,554
Interest-bearing	241,999
Total deposits	308,553
Federal Home Loan Bank advances	87,217
Due to broker	0
Other liabilities	4,072
Total liabilities	399,842

Shareholders' equity:	
Common stock, par value $.10 per share; authorized 3,000,000 shares; issued and outstanding, 1,685,021 shares at June 30, 2007 and 1,684,181 shares at December 31, 2006	169
Paid-in capital	13,130
Retained earnings	34,576
Accumulated other comprehensive loss	(5,264)
Total shareholders' equity	42,611
Total liabilities and shareholders' equity	$442,453

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)
June 30, 2007 and 2006
(unaudited)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006	Three M Ju 2007
Interest and dividend income:			
Interest and fees on loans	$ 8,736	$ 7,471	$4,348
Interest on debt securities:			
Taxable	2,757	2,562	1,326
Tax-exempt	1,111	1,057	585
Dividends on equity securities	159	130	81
Other interest	34	29	20
Total interest and dividend income	12,797	11,249	6,360
Interest expense:			
Interest on deposits	4,022	2,957	1,992
Interest on Federal Home Loan Bank advances	2,046	1,741	1,005
Total interest expense	6,068	4,698	2,997
Net interest and dividend income	6,729	6,551	3,363
Noninterest income:			
Trust and investment services income	1,033	935	503
Loan commissions	13	45	9
Service charges on deposit accounts	361	359	181
Gain (loss) on sales of available-for-sale securities, net	180	61	63
Gain on sales of loans held-for-sale	167	230	102

Other income	485	397	257
Total noninterest income	2,239	2,027	1,115
Noninterest expense:			
Salaries and employee benefits	3,832	3,410	1,880
Occupancy expense	380	352	189
Equipment expense	370	381	179
Data processing	638	610	301
Insurance	74	63	36
Printing and stationery	144	129	80
Professional fees	339	180	174
Legal expense	126	63	71
Amortization of core deposit intangible	82	82	41
Other expense	639	559	354
Total noninterest expense	6,624	5,829	3,305
Income before income taxes	2,344	2,749	1,173
Income taxes	461	596	224
Net income	$ 1,883	$ 2,153	$ 949
Earnings per common share	$ 1.12	$ 1.28	$ .56
Dividends per common outstanding	$ .54	$ .52	$ .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)
Six months ended June 30, 2007 and 2006
(unaudited)

	2007	2006
Cash flows from operating activities:		
Net income	$ 1,883	$ 2,153
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	46	67
Gain on sales of available-for-sale securities, net	(180)	(61)
Change in loans held-for-sale	304	(117)
Change in deferred loan costs, net	(56)	0
Net decrease in mortgage servicing rights	53	16
Depreciation and amortization	250	272
Amortization of core deposit intangible	82	82

Accretion of fair value adjustment on deposits/borrowings	(65)	(69)
Amortization of fair value adjustment on loans	44	63
Decrease in interest receivable	(31)	(28)
Deferred tax benefit	(433)	(187)
Decrease in taxes receivable	317	280
Decrease (increase) in prepaid expenses	42	(344)
Increase in cash surrender value of insurance policies	(60)	(60)
Increase in income tax payable	157	0
Decrease in other assets	(15)	0
Decrease in accrued expenses	(178)	(682)
Increase in interest payable	109	43
Increase in other liabilities	270	92
Issuance of shares for Directors' fees	30	32
Change in unearned income on loans	4	(54)
Net cash provided by operating activities	2,573	1,498
Cash flows from investing activities:		
(Purchase)/Redemption of Federal Home Loan Bank stock	(419)	860
Purchases of available-for-sale securities	(37,394)	(33,644)
Proceeds from sales of available-for-sale securities	37,414	27,163
Proceeds from maturities of available-for-sale securities	0	4,900
Proceeds from maturities of held-to-maturity securities	2	70
Loan originations and principal collections, net	2,831	(12,381)
Purchase of loans	(1,886)	0
Recoveries of loans previously charged-off	41	22
Capital expenditures	(739)	(125)
Net cash used in investing activities	(150)	(13,135)

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SALISBURY BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)
Six months ended June 30, 2007 and 2006
(unaudited)
(continued)

	2007	2006
Cash flows from financing activities:		
Net decrease in demand deposits, NOW and savings accounts	(5,073)	(7,443)
Net increase in time deposits	40	18,609
Federal Home Loan Bank advances	10,000	10,000
Principal payments on advances from Federal Home Loan Bank	(11,208)	(9,943)
Net change in short term advances from Federal Home Loan Bank	1,397	(594)
Dividends paid	(893)	(859)

Net cash (used in) provided by financing activities	(5,737)	9,770
Net decrease in cash and cash equivalents	(3,314)	(1,867)
Cash and cash equivalents at beginning of year	11,757	10,204
Cash and cash equivalents at end of period	$ 8,443	$ 8,337
Supplemental disclosures:		
Interest paid	$ 5,798	$ 4,724
Income taxes paid	420	503

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

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 six months ended June 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 was derived from audited financial statements, but does not include all disclosures required by GAAP.

NOTE 2 - COMPREHENSIVE 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 income is to report a measure of all changes in equity that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners. The Company's primary source of other comprehensive income is the net unrealized holding gain (loss) on securities.

Comprehensive(loss) income

	Six months ended June 30, 2007	Six months ended June 30, 2006	Three mon Jun 2007
	(amounts in thousands)		(amounts in
Net income	$ 1,883	$ 2,153	$ 949
Net change in unrealized holding (losses) or gains on securities and minimum pension liability adjustment, net of tax during period.	(2,742)	(1,747)	(2,356)
Comprehensive (loss) income	$ (859)	$ 406	$(1,407)

NOTE 3 - IMPACT OF NEW ACCOUNTING STANDARDS

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, "Accounting for Certain Hybrid Instruments" (SFAS 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 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. Early adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including

interim financial statements, for any period of that fiscal year. The Company does not expect the adoption of this statement to have a material impact on its financial condition, results of operations or cash flows.

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 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.

NOTE 4 - DEFINED BENEFIT PENSION PLAN

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

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006	Three Mont June 2007
Components of net periodic benefit cost:			
Service cost	$ 218,870	$ 242,865	$ 104,780
Interest cost	171,011	163,496	82,034
Expected return on plan assets	(184,471)	(142,833)	(107,307)
Amortization of:			
Prior service costs	447	447	224
Actuarial loss	34,118	48,263	12,945
Net periodic benefit cost	$ 239,975	$ 312,238	$ 92,676

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*
Return on plan assets	7.50%	7.50	7.50%

* 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 has seven (7) full service offices including a Trust and Investment Services Division. Such offices are located in the towns of Canaan, Lakeville, Salisbury and Sharon, Connecticut and Sheffield and South Egremont, Massachusetts. In addition, the Bank opened a full service branch office in Dover Plains, New York on August 1, 2007. 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, 2006.

RESULTS OF OPERATIONS

Overview

The Company's net income for the six months ended June 30, 2007 was $1,883,000. This compares to earnings of $2,153,000 for the same period in 2006. Earnings per share for the six months ended June 30, 2007 totaled $1.12 per share which compared to earnings per share of $1.28 for the corresponding period in 2006. The decrease in earnings is primarily attributable to an increase in noninterest expense, specifically, additional staff to support new marketing strategies, growth and our branch expansion into New York State. The Company's assets at June 30, 2007 totaled $442,453,000 compared to total assets of $450,339,000 at December 31, 2006. Non-performing loans totaled $894,000 at June 30, 2007 or ..35% of total loans outstanding. This compares to non-performing loans totaling $886,000 at December 31, 2006. 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. The portfolio does not include any sub-prime loans. The Bank's investment portfolio is of high quality and has no sub-prime mortgage collateral in any securities owned. Deposits at June 30, 2007 totaled $308,553,000 as compared to total deposits of $313,586,000 at December 31, 2006. The decrease is primarily the result of a $5,000,000 Brokered CD that matured in March 2007 and was not replaced. The Bank and the Company are "well capitalized". The Company's total risk based capital ratio was 15.67%; the

Tier 1 capital ratio was 14.69% and the leverage ratio was 8.51%. The Board of Directors declared a second quarter cash dividend of $.27 per common share, which was paid on July 31, 2007 to shareholders of record as of June 30, 2007. This compared to a cash dividend of $.26 per common share that was paid for the second quarter of 2006. Year-to-date dividends total $.54 per common share outstanding for this year. This compares to total year-to-date dividends of $.52 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."

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)

Six Months Ended June 30,	2007	2006
Total Interest and Dividend Income (financial statements)	$12,797	$11,249
Tax Equivalent Adjustment	572	545
Total Interest and Dividend Income (on an FTE basis)	13,369	11,794
Total Interest Expense	6,068	4,698
Net Interest and Dividend Income-FTE	$ 7,301	$ 7,096

Total interest and dividend income on a FTE basis for the six months ended June 30, 2007, when compared to the same period in 2006, increased $1,575,000 or 13.35%. The increase was primarily attributable to an economic environment experiencing an increase in interest rates when comparing the two periods.

Interest expense on deposits for the first six months of 2007 totaled $4,022,000, an increase of $1,065,000 or 36.02% which compared to $2,957,000 for the same period in 2006. This increase reflects an economic environment of generally higher interest rates. Although the Bank's volume of Federal Home Loan Bank advances outstanding at June 30, 2007 remained comparable to the level outstanding at December 31, 2006, during the six month period ended June 30, 2007, interest expense on these advances increased 17.52% to $2,046,000. This increase in interest expense is attributable to the increased monthly average balance of overnight borrowings throughout the first six months of 2007. Total interest expense for the six months ended June 30, 2007 was $6,068,000, an increase of $1,370,000 or 29.16% when compared to the same period in 2006.

Overall, net interest and dividend income (on an FTE basis) increased $205,000 or 2.88% to $7,301,000 for the period ended June 30, 2007 when compared to the same period in 2006.

Noninterest Income

Noninterest income totaled $2,239,000 for the six months ended June 30, 2007. This is an increase of $212,000 or 10.46% compared to noninterest income of $2,027,000 for the six months ended June 30, 2006. Gains on sales of available-for-sale securities increased 195.08% to $180,000 for the first six months of 2007 compared to the corresponding period in 2006. This increase is primarily the result of the movement of market rates during the quarter. Continuing growth of the trust and investment services division has resulted in an increase in trust income of $98,000 or 10.48% to $1,033,000 for the first six months of 2007, which compares to $935,000 for the same period in 2006. Other income has remained consistent when comparing the first six months of 2007 to the same period in 2006. This category of income primarily consists of fees associated with transaction accounts and in addition, fees related to the origination and servicing of mortgage loans and gains related to the sale of mortgage loans.

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Noninterest Expense

Noninterest expense increased 13.64% for the first six 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 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 noninterest expense and the changes in the period were as follows (amounts in thousands):

	2007	2006	Change	% Change
Salaries and employee benefits	$3,832	$3,410	$422	12.38
Occupancy expense	380	352	28	7.95
Equipment expense	370	381	(11)	(2.89)
Data processing	638	610	28	4.59
Insurance	74	63	11	17.46
Printing and stationery	144	129	15	11.63
Professional fees	339	180	159	88.33
Legal expense	126	63	63	100.00
Amortization of core deposit intangible	82	82	0	0

Other expense	639	559	80	14.31
Total noninterest expense	$6,624	$5,829	$795	13.64

Income Taxes

The income tax provision for the first six months of 2007 totaled $461,000 in comparison to $596,000 for the same six month period in 2006. Pretax income in 2007 was $2,344,000 and included tax exempt income totaling $1,111,000. Pretax income in 2006 was $2,749,000 and included tax exempt income totaling $1,057,000. The decrease in the income tax provision is primarily attributable to a decrease in taxable income.

Net Income

Overall, net income totaled $1,883,000 for the six months ended June 30, 2007 and represents earnings of $1.12 per average share outstanding. This compares to net income of $2,153,000 or $1.28 per average share outstanding for the same period in 2006.

THREE MONTHS ENDED JUNE 30, 2007
AS COMPARED TO THREE MONTHS ENDED JUNE 30, 2006

Net Interest and Dividend Income

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

(amounts in thousands)

Three Months Ended June 30	2007	2006
Total Interest and Dividend Income (financial statements)	$ 6,360	$ 5,789
Tax Equivalent Adjustment	301	290
Total Interest and Dividend Income (on an FTE basis)	6,661	6,079
Total Interest (Expense)	(2,997)	(2,531)
Net Interest and Dividend Income-FTE	$ 3,664	$ 3,548

Total interest and dividend income on an FTE basis for the three months ended June 30, 2007 increased $582,000 or 9.57% 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 $373,000 or 23.04% for the quarter to $1,992,000 compared to $1,619,000 for the same quarter in 2006. This increase is primarily the result of an economic environment of increasing interest rates coupled with an increased deposit base. The Bank's volume of

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Federal Home Loan Bank advances has increased during the three month period ended June 30, 2007 when compared to the corresponding period in 2006. Interest expense on these advances has increased $93,000 or 10.20% and totaled $1,005,000 for the three months ended June 30, 2007 compared to $912,000 for the corresponding period in 2006. Total interest expense for the three months ending June 30, 2007 was $2,997,000 compared to total interest expense for the same period in 2006 of $2,531,000, an increase of $466,000 or 18.41%. This increase is a reflection of an economic environment of rising interest rates and the result of generally higher interest rates on Federal Home Loan Bank advances. Overall, net interest and dividend income (on a FTE basis) increased $116,000 or 3.27% to $3,664,000 for the three month period ended June 30, 2007 when compared to the corresponding period in 2006.

Noninterest Income

Noninterest income totaled $1,115,000 for the three months ended June 30, 2007 as compared to $1,001,000 for the three months ended June 30, 2006. This increase of $114,000 or 11.39% is primarily attributable to increased income generated by an increase from gains in securities transactions and an increase in other income. Income from the trust and investment services division increased $53,000 or 11.78% to $503,000 for the second quarter of 2007 compared to the same period in 2006. This is primarily the result of continued growth in assets under management. Gains on sales of available-for-sale securities totaled $63,000 for the second quarter of 2007. This compares to losses on sales of available-for-sale securities of $13,000 for the corresponding period in 2006. This increase is primarily the result of the movement of market rates during the quarter. Other noninterest 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 volumes of these transactions are driven primarily by consumer demand which results in variances from quarter to quarter. Year-to-date volumes however, are consistent when comparing 2007 to 2006.

Noninterest Expense

Noninterest expense totaled $3,305,000 for the three month period ended June 30, 2007 as compared to $2,992,000 for the same period in 2006, an increase of $313,000 or 10.46%. Although there are some increases in non-interest expenses that are attributable to normal volumes of business, much of the overall increases in the non-interest 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 noninterest expense and the changes in the period were as follows (amounts in thousands):

	2007	2006	Change
Salaries and employee benefits	$1,880	$1,707	$173
Occupancy expense	189	176	13
Equipment expense	179	194	(15)
Data processing	301	327	(26)
Insurance	36	32	4
Printing and stationery	80	76	4
Professional fees	174	90	84
Legal expense	71	38	33
Amortization of core deposit intangible	41	41	0
Other expense	354	311	43
Total non-interest expense	$3,305	$2,992	$313

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Income Taxes

The income tax provision for the three month period ended June 30, 2007 totaled $224,000 in comparison to $261,000 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 $949,000 for the three months ended June 30, 2007 and represents earnings of $.56 per average share outstanding share. This compares to net income of $1,006,000 for the same period in 2006, a decrease of $57,000 or 5.67% and compares to earnings per share of $.60 for the 2006 period.

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FINANCIAL CONDITION

Total assets at June 30, 2007 were $442,453,000, compared to $450,339,000 at December 31, 2006, a decrease of 1.75%. The decrease is primarily the result of a decrease in earning assets during the period.

Securities

The make up of the securities portfolio is diversified among U.S. Government sponsored agencies, mortgage-backed securities and securities issued by states of the United States and political subdivisions of the states. The portfolio has no sub-prime mortgage collateral in any of its owned securities. During the six months ended June 30, 2007, the securities portfolio, including Federal Home Loan Bank stock, decreased $5,228,000 or 3.24% to $156,004,000 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 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 June 30, 2007, the unrealized loss net of tax was $3,955,000. 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

Total loans outstanding of $253,714,000 at June 30, 2007 compares to total loans outstanding of $254,773,000 at December 31, 2006. This decrease of $1,059,000 or ..42% includes a January 2007 maturity of $12,000,000 in Term Federal Funds, excluding this maturity, there is an increase in loans of $10,941,000 or 4.29%. Competition for loans remains aggressive in the Bank's market area, however new business development coupled with an increase in loan demand resulted in the increase.

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

	June 30, 2007	December 31, 2006
	(amounts in thousands)	
Commercial, financial and agricultural	$ 17,740	$ 16,465
Real estate-construction and land development	22,650	21,169
Real estate-residential	153,152	145,395
Real estate-commercial	50,968	50,859
Consumer	8,095	8,816
Term federal funds	0	12,000
Other	1,109	69
	253,714	254,773
Deferred costs, net	225	168
Unearned income	(1)	(3)
Allowance for loan losses	(2,452)	(2,474)
Net Loans	$251,486	$252,464

Provisions and Allowance for Loan Losses

Credit risk is inherent in the business of extending loans. The Bank monitors the quality of the portfolio to ensure that loan quality will not be sacrificed for growth or otherwise compromise the Bank's objectives. Because of this risk associated with extending loans, the Bank maintains an allowance or reserve for loan and lease losses through

charges to earnings. There was no provision expense for loan losses for the first six month period of 2007 or the comparable period in 2006.

The Bank evaluates the adequacy of the allowance no less frequently than on a quarterly basis. No material changes have been made in the estimation methods or assumptions that the Bank uses in making this determination during the period ended June 30, 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, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

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

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

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

Nonperforming loans, which include all loans that are on a non-accrual status along with loans that are 90 days or more past due and still accruing, are closely monitored by management. At June 30, 2007, nonperforming loans totaled $894,000 or 0.35% of total loans outstanding of $253,714,000. The allowance for loan losses totaled $2,452,000 representing 274.27% 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 $63,000 of loans were charged off by the Bank during the six months ended June 30, 2007. These charged-off loans consisted primarily of consumer loans. This compares to loans charged off during the six month period ended June 30, 2006 which totaled $68,000. A total of $41,000 of previously charged-off loans was recovered during the six month period ended June 30, 2007. Recoveries for the same period in 2006 totaled $22,000. While management estimates loan losses using the best available information, no assurances can be given that future additions to the allowance will not be necessary based on changes in economic and real estate market conditions, further information obtained regarding problem loans, identification of additional problem loans or other factors. Additionally, future additions to the allowance may be necessary to maintain adequate coverage ratios.

Deposits

The Company offers a variety of deposit accounts with a range of interest rates and terms. The following table illustrates the composition of the Company's deposits at June 30, 2007 and December 31, 2006:

	June 30, 2007	December 31, 2006
	(amounts in thousands)	
Demand	$ 66,554	$ 70,502
NOW	26,764	21,461
Money Market	51,763	57,015
Savings	43,071	44,246
Time	120,401	120,362
Total Deposits	$308,553	$313,586

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

Borrowings

The Company utilizes advances from the Federal Home Loan Bank as part of its operating strategy to supplement deposit growth and fund its asset growth, a strategy that is designed to increase interest income. These advances are made pursuant to various credit programs, each of which has its own interest rate and range of maturities. At June 30, 2007, the Company had $87,217,000 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 of the customer's credit. The accompanying table summarizes the Company's off balance sheet lending-related financial instruments by remaining maturity at June 30, 2007:

June 30, 2007
(amounts in thousands)

By remaining maturity	Less than 1 year	1-3 years	4-5 years
Off balance sheet lending-related			

Financial Instruments			
Residential real estate related	$ 6,704	$ 24	$48
Commercial related	7,203	1,373	
Consumer related			
Standby letters of credit		13	
Total	$13,907	$1,410	$48

Interest Rate Risk

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

interest rates, liquidity and capital. One of the primary financial objectives is to manage interest rate risk and control the sensitivity of earnings to changes in interest rates in order to prudently improve net interest income and manage the maturities and interest rate sensitivities of assets and liabilities.

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

An interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that same period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. At June 30, 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 June 30, 2007 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 June 30, 2007 the Company had approximately $55,637,000 in loan commitments outstanding. Management believes that the current level of liquidity is ample to meet the Company's needs for both the present and foreseeable future.

Capital

At June 30, 2007, the Company had $42,611,000 in shareholders' equity, a decrease of 3.92% 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 six-month period ended June 30, 2007 totaled $1,883,000. Securities in the portfolio that are classified as available-for-sale are adjusted to fair value monthly and the unrealized losses or gains are not included in earnings, but are reported as a net amount (less expected tax) as a separate component of capital until realized. Market fluctuations of fair value of the securities portfolio for the period ending June 30, 2007 resulted in other comprehensive loss net of tax totaling $2,765,000. The application of SFAS No. 158, as defined in Note 3 resulted in comprehensive income net of tax of $23,000 for the six month period ended June 30, 2007.

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 $910,000. 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 $31,000. 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 June 30, 2007, the Company had a total risk based capital ratio of 15.67% compared to 15.28% 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

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

Forward Looking Statements

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

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

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

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

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

(a) the risk of adverse changes in business conditions in the banking industry generally and in the specific markets in which the Bank operates;

(b) changes in the legislative and regulatory environment that negatively impact the Company and Bank through increased operating expenses;

(c) increased competition from other financial and non-financial institutions;

(d) the impact of technological advances; and

(e) other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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 time frames. 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 has not significantly changed from year end 2006.

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Item 4. Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer concluded that, based upon an evaluation as of June 30, 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 six month period ended June 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.

Part II - OTHER INFORMATION

Item 1. - Legal Proceedings. Not applicable

Item 1A. Risk Factors. Not applicable

Item 2. - Unregistered Sales of Equity Securities and Use of Proceeds. Unregistered Sales of Equity Securities and Use of Proceeds. On May 10, 2007, the Company issued 840 shares of common stock to members of its Board of Directors under the terms of the Director Stock Retainer Plan. The shares were issued in a private transaction in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. No cash consideration was received upon issuance of the shares.

Item 3. - Defaults Upon Senior Securities. Not applicable

Item 4. - Submission of Matters to a Vote of Security Holders. Incorporated by reference from Form 8-K filed May 12, 2007.

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: August 14, 2007

by: /s/ John F. Perotti

John F. Perotti
Chief Executive Officer

Date: August 14, 2007 by: /s/ John F. Foley

John F. Foley
Chief Financial Officer