SALISBURY BANCORP INC
Form 10-Q
August 14, 2009

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, 2009___________________

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 has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (ss.232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [_] No [_]

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

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

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

Yes [_] No [X]

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: The Company had 1,686,701 shares outstanding as of August 14, 2009.

SALISBURY BANCORP, INC. AND SUBSIDIARY

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Part I-- FINANCIAL INFORMATION
Item 1. Financial Statements

SALISBURY BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
June 30, 2009 and December 31, 2008

	June 30, 2009 (unaudited)
ASSETS	
Cash and due from banks	$ 6,795,337
Interest-bearing demand deposits with other banks	34,262,986
Money market mutual funds	4,601,031
Federal funds sold	0
Cash and cash equivalents	45,659,354
Interest-bearing time deposit with other banks	5,000,000
Investments in available-for-sale securities (at fair value)	158,902,378
Investments in held-to-maturity securities (fair values of $64,257 as of June 30, 2009 and $66,502 as of December 31, 2008)	64,086
Federal Home Loan Bank stock, at cost	5,742,800
Loans held-for-sale	211,000
Loans, less allowance for loan losses of $3,308,619 as of June 30, 2009 and $2,724,024 as of December 31, 2008	294,364,033
Investment in real estate	75,000
Other real estate owned	418,024
Premises and equipment	8,259,290
Goodwill	9,828,712
Core deposit intangible	1,082,960
Accrued interest receivable	2,341,363
Cash surrender value of life insurance policies	3,994,980
Deferred taxes	4,270,185
Other assets	1,966,624
Total assets	$ 542,180,789

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits:	
Noninterest-bearing	$ 64,781,251
Interest-bearing	337,251,355
Total deposits	402,032,606
Securities sold under agreements to repurchase	10,325,843
Federal Home Loan Bank advances	77,174,189
Due to broker	0
Other liabilities	4,653,255
Total liabilities	494,185,893
Shareholders' equity:	
Preferred stock, par value $.01 per share, authorized 25,000 shares; issued and outstanding 8,816 shares at June 30, 2009 and 0 shares at December 31, 2008.	88
Common stock, par value $.10 per share; authorized 3,000,000 shares; issued and outstanding, 1,686,701 shares at June 30, 2009 and 1,685,861 shares at December 31, 2008	168,670
Unused common stock warrants outstanding	111,998
Paid-in capital	21,883,898
Retained earnings	34,864,904
Accumulated other comprehensive loss	(9,034,662)
Total shareholders' equity	47,994,896
Total liabilities and shareholders' equity	$ 542,180,789

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 (LOSS)
June 30, 2009 and 2008
(unaudited)

	Six Months Ende June 30,	
	2009	200
Interest and dividend income:		
Interest and fees on loans	$ 8,989,464	$ 9,2
Interest on debt securities:		
Taxable	2,596,292	2,6
Tax-exempt	1,276,827	1,1
Dividends on equity securities	0	1
Other interest	10,542	1
Total interest and dividend income	12,873,125	13,2
Interest expense:		

Interest on deposits	2,994,686	3,6
Interest on securities sold under agreements to repurchase	67,280	
Interest on Federal Home Loan Bank advances	1,530,381	2,0
Total interest expense	4,592,347	5,7
Net interest and dividend income	8,280,778	7,5
Provision for loan losses	745,000	1
Net interest and dividend income after provision for loan losses	7,535,778	7,3
Noninterest income:		
Trust/Wealth Advisory Services income	970,000	1,1
Loan commissions	1,548	
Service charges on deposit accounts	415,528	4
Gain on sales of available-for-sale securities, net	436,210	3
Impairment loss on securities	(1,127,889)	
Gain on sales of loans held-for-sale	454,374	1
Other income	751,935	5
Total noninterest income	1,901,706	2,5
Noninterest expense:		
Salaries and employee benefits	4,547,153	4,0
Occupancy expense	502,082	4
Equipment expense	440,018	4
Data processing	713,600	6
Insurance	55,483	
FDIC Insurance	533,204	
Printing and stationery	167,183	1
Professional fees	524,628	4
Legal expense	207,953	1
Amortization of core deposit intangible	82,107	
Other expense	851,361	7
Total noninterest expense	8,624,772	7,3
Income (loss) before income taxes	812,712	2,6
Income taxes	(85,103)	5
Net income (loss)	$ 897,815	$ 2,0
Net income (loss) available to common shareholders	$ 763,061	$ 2,0
Earnings (loss) per common share	$ .45	$
Dividends per common share outstanding	$ .28(1)	$

(1) The $0.28 dividend for the second quarter was not declared until July 8, 2009 and will be reflected in the financial statements for the three (3) and nine (9) month periods ended September 30, 2009.

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

SALISBURY BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)
Six months ended June 30, 2009 and 2008
(unaudited)

	2009	2008
Cash flows from operating activities:		
Net income	$ 897,815	$ 2,064,
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	268,621	35,
Gain on sales of available-for-sale securities, net	(436,210)	(354,
Write down of available-for-sale securities	1,127,889	
Provision for loan losses	(745,000)	(170,
Change in loans held-for-sale	2,103,250	(289,
Change in deferred loan costs, net	(7,093)	(23,
Net (increase) decrease in mortgage servicing rights	(237,348)	16,
Depreciation and amortization	351,232	324,
Amortization of core deposit intangible	82,108	82,
Accretion of fair value adjustment on deposits/borrowings	(54,251)	(65,
Amortization of fair value adjustment on loans	23,809	23,
Decrease (increase) in interest receivable	332,408	(91,
Deferred tax expense	105,390	188,
(Increase) decrease in income tax receivable	(373,247)	41,
Decrease in prepaid expenses	65,654	55,
Increase in cash surrender value of insurance policies	(170,327)	(60,
Increase in other assets	(58,288)	(146,
Decrease in accrued expenses	(326,388)	(157,
Increase in interest payable	37,670	73,
Increase in other liabilities	225,916	415,
Issuance of shares for Directors' fees	84	27,
Increase in unearned income on loans	6,230	5,
Net cash provided by operating activities	3,219,924	1,997,
Cash flows from investing activities:		
Purchase of interest-bearing time deposits with other banks	(5,000,000)	
Purchase of Federal Home Loan Bank stock	(419,800)	(90,
Purchases of available-for-sale securities	(78,868,360)	(85,488,
Proceeds from sales of available-for-sale securities	33,679,138	82,989,
Proceeds from maturities of available-for-sale securities	27,991,643	
Proceeds from maturities of held-to-maturity securities	2,343	2,
Loan originations and principal collections, net	3,572,618	(18,598,
Purchase of loans	(76,266)	(2,009,
Recoveries of loans previously charged-off	15,613	21,
Capital expenditures	(1,476,821)	(887,
Net cash used in investing activities	(20,579,892)	(24,060,
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	28,692,783	19,522,
Net increase (decrease) in time deposits	28,414,591	(4,476,

Federal Home Loan Bank advances	12,000,000	17,000,
Principal payments on Federal Home Loan Bank advances	(1,807,227)	(10,327,
Net changes in short term advances	(20,878,000)	(2,372,
Decrease in securities sold under agreements to repurchase	(877,446)	
Proceeds from issuance of preferred stock	8,838,101	
Dividends paid	(1,023,283)	(1,209,
Net cash provided by financing activities	53,359,519	18,136,
Net increase (decrease) in cash and cash equivalents	35,999,551	(3,926,
Cash and cash equivalents at beginning of year	9,659,803	15,178,
Cash and cash equivalents at end of period	$ 45,659,354	$ 11,251,
Supplemental disclosures:		
Interest paid	$ 4,554,677	$ 5,644,
Income taxes paid	182,754	316,

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

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SALISBURY BANCORP, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying condensed consolidated interim financial statements are unaudited and include the accounts of Salisbury Bancorp, Inc. (the "Company"), its wholly owned subsidiary Salisbury Bank and Trust Company (the "Bank"), and the Bank's subsidiaries, S.B.T. Realty, Inc. and SBT Mortgage Service Corporation (the "PIC"). 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 of 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, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2008 Annual Report on Form 10-K.

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

NOTE 2 - COMPREHENSIVE INCOME (LOSS)

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

Comprehensive income (loss)

	Six months ended June 30,		Three months ended June 30,	
	2009	2008	2009	2008
	(amounts in thousands)		(amounts in thousands)	
Net income	$ 898	$ 2,064	$ (183)	$ 983
Net change in unrealized (losses) on securities and unrecognized pension plan expense, net of tax during period	(42)	(2,922)	(1,977)	(1,976)
Comprehensive loss	$(856)	$ (858)	$(2,160)	$ (993)

NOTE 3 - IMPACT OF NEW ACCOUNTING STANDARDS

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on Issue No. 06-4 "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," (EITF Issue 06-4). EITF 06-4 requires companies with an endorsement split-dollar life insurance arrangement to recognize a liability for future postretirement benefits. The effective date was for fiscal years beginning after December 15, 2007, with earlier application permitted. The Company should recognize the effects of applying this Issue through either (a) a change in accounting principle through a cumulative effect adjustment to retained earnings or (b) a change in accounting principle through retrospective application to all periods. The Company adopted this Issue in 2008, and it did not have a significant impact on its financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP) and expands disclosures about fair value measurements. The FASB's FSP FAS 157-2, "Effective Date of FASB Statement No. 157", defers until January 1, 2009, the application of SFAS 157 to nonfinancial assets and nonfinancial liabilities not recognized or disclosed at least annually at fair value. This includes nonfinancial assets

and nonfinancial liabilities initially measured at fair value in a business combination or other new basis event, but not measured at fair value in subsequent periods. The Company adopted this statement on January 1, 2008 and it did not have a significant impact on its financial statements. See Note 5 Fair Value Measurements.

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, at specified election dates, to choose to measure certain financial instruments at fair value that are not currently required to be measured at fair value. The fair value option is applied on an instrument-by-instrument basis, is irrevocable and can only be applied to an entire instrument and not to specified risks, specific cash flows, or portions of that instrument. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date and upfront fees and costs related to those items will be recognized in earnings as incurred and not deferred. SFAS No. 159 became effective in fiscal years beginning after November 15, 2007. The Company adopted SFAS 159 effective January 1, 2008 and it did not have a significant impact on its financial statements. See Note 5 Fair Value Measurements

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements and Amendment of ARB No. 51" (SFAS No. 160). The pronouncement requires all entities to report noncontrolling (minority) interests in subsidiaries as a component of shareholders' equity. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. Early adoption is prohibited. Management anticipates that this statement will not have a material impact on the Company's financial condition and results of operations.

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

In February 2008, the FASB issued FSP FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions." This FSP provides guidance on how the transferor and transferee should separately account for a transfer of a financial asset and a related repurchase financing if certain criteria are met. This guidance became effective January 1, 2009. The adoption of this new FSP did not have a material effect on the Company's results of operations or financial position.

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

In April 2008, the FASB issued FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets." This FSP provides guidance as to factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, "Goodwill and Other Intangible Assets." This guidance became effective January 1, 2009. The adoption of this new FSP did not have a material effect on the Company's results of operations or financial position.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." This standard formalizes minor changes in prioritizing accounting principles used in the preparation of financial statements that are presented in conformity with GAAP. This standard became effective November 15, 2008.

In April 2009, the FASB issued FASB Staff Position 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance for estimating fair value measurements in accordance with FASB Statement No. 157, "Fair Value Measurements," when the volume and level of activity for the asset or liability have significantly decreased. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The Company adopted this statement on April 1, 2009, and it did not have a significant impact on its financial statements. See Note 5 - Fair Value Measurements

In April 2009, the FASB issued FASB Staff Position 107-1 and Accounting Principles Board Opinion 28-1, "Interim Disclosures About Fair Value of Financial Instruments" (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 amends FASB Statement No. 107, "Disclosures About Fair Value of Financial Instruments," to require entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments in both interim and annual financial statements. APB 28-1 amends APB Opinion No. 28, "Interim Financial Reporting" to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 and APB 28-1 are effective for interim and annual periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. An entity may early adopt this FSP only if it also elects to early adopt FSP FAS 157-4. The Company adopted this statement on April 1, 2009, and it did not have a significant impact on its financial statements. See Note 5 - Fair Value Measurements

In April 2009, the FASB issued FASB Staff Position 115-2 and 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 amends the other-than-temporary impairment (OTTI) guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of OTTI on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to OTTI of equity securities. FSP FAS 115-2 and FAS 124-2 are effective for interim and annual reporting periods after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The Company adopted this statement on April 1, 2009. See Note 6 - Other -Than-Temporary Impairment Losses for impact on its financial statements.

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, 2009	Six Months Ended June 30, 2008	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Components of net periodic benefit cost:				
Service cost	$ 214,000	$ 201,904	107,000	$ 88,154
Interest cost	201,500	183,475	100,750	88,475
Expected return on plan assets	(179,500)	(213,496)	(89,750)	(107,746)
Amortization of:				
Prior service costs	0	446	0	223
Actuarial loss	65,000	22,431	32,500	6,681
Net periodic benefit cost	$ 301,000	$ 194,760	$ 150,500	$ 75,787

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

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

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

NOTE 5 - FAIR VALUE MEASUREMENTS

Fair Value Measurements at Reporting Date using:

Description	6/30/2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for sale	$158,902,378	$41,650	$157,684,925	$1,175,803
Impaired loans	7,879,645	0	7,879,645	0
Total	$166,782,023	$41,650	$165,564,570	$1,175,803

Fair Value Measuremen
Using Significant Unobservab

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	Level 3	
	Available-for-sale Securities	T
Beginning balance March 31, 2009	$ 413,432	$
Total gains or losses (realized/unrealized)		
Included in earnings (or changes in net assets)		
Included in other comprehensive income	740,421	
Amortization of securities, net	2,694	
Transfers in and/or out of Level 3	19,256	
Ending balance, June 30, 2009	$ 1,175,803	$ 1,
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ 0	$

	Fair Value Measuremen Using Significant Unobservab Level 3	
	Available-for-Sale Securities	
Beginning balance January 1, 2009	$ 2,172,737	$ 2,
Total gains or losses (realized/unrealized)		
Included in earnings (or changes in net assets)		
Included in other comprehensive income	(1,034,889)	(1,
Amortization of securities, net	5,138	
Transfers in and/or out of Level 3	32,817	
Ending balance, June 30, 2009	$ 1,175,803	$ 1,
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ 0	$

The estimated fair values of the Bank's financials instruments, all of which are held or issued for purposes other than trading, are as follows as of June 30, 2009 and December 31, 2008:

	6/30/2009		12/31/2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value

Financial assets:				
Cash and cash equivalents	$ 45,659,354	$ 45,659,354	$ 9,659,803	$ 9,659,80
Available-for-sale securities	158,902,378	158,902,378	150,526,964	150,526,96
Held-to-maturity securities	64,086	64,257	66,443	66,50
Federal Home Loan Bank stock	5,742,800	5,742,800	5,323,000	5,323,00
Loans held-for-sale	211,000	211,000	2,314,250	2,314,25
Loans, net	294,364,033	286,117,908	297,367,434	287,062,74
Accrued interest receivable	2,341,363	2,341,363	2,704,385	2,704,38
Financial liabilities:				
Deposits	402,032,606	402,473,442	344,925,232	346,035,07
FHLB advances	77,174,189	80,435,465	87,913,667	90,205,66
Securities sold under agreements to repurchase	10,325,843	10,325,843	11,203,289	11,203,28
Due to broker	--	--	7,631,919	7,631,91

The carrying amounts of financial instruments shown in the above table are included in the consolidated balance sheets under the indicated captions. Accounting policies related to financial instruments are described in Note 2.

NOTE 6 - OTHER-THAN-TEMPORARY IMPAIRMENT LOSSES

The aggregate fair value and unrealized losses of securities that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more, and are temporarily impaired, are as follows as of June 30:

	June 30, 2009			
	Less than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities issued by the U.S. Treasury and other U. S. government corporations and agencies	$22,687,703	$ 516,713	$ 0	$ 0
Debt securities issued by states of the United States and political subdivisions of the states	18,028,319	2,410,225	30,415,488	4,653,565
Mortgage-backed securities	18,037,536	987,913	11,930,243	2,990,894
Total temporarily impaired securities	$58,753,558	$ 3,914,851	$42,345,731	$ 7,644,459

Securities exhibiting unrealized losses are analyzed to determine that the impairments are not other-than-temporary and the following information is considered. U.S. Government securities are backed by the full faith and credit of the United States and therefore bear no credit risk. U.S. Government agency securities, which have a significant impact in financial markets, have minimal credit risk. The unrealized losses at June 30, 2009 are mainly attributable to changes in market interest rates and current market inefficiencies. As Company management has the ability and intent to hold securities until anticipated recovery to cost basis occurs, no declines are deemed to be other than temporary.

As of June 30, 2009 the Company adopted FSP FAS 115-2 and FAS 124-2 "Recognition and Presentation of Other-Than-Temporary Impairments". For those debt securities for which the fair value of the security is less than its amortized cost and the Company does not intend to sell such security and it is more likely than not that it will not be required to sell such security prior to recovery of its amortized cost basis less any credit losses, FSP FAS 115-2 and FAS 124-2 requires that the credit component of the OTTI losses be recognized in earnings while the non credit component is recognized in other comprehensive loss, net of related taxes.

The following table summarizes OTTI losses on securities for the quarter ended June 30, 2009:

	Private Label Collateralized Mortgage Obligations
Total other-than-temporary impairment losses	$ 4,699,158
Less: unrealized other-than-temporary losses recognized in other comprehensive loss(1)	3,571,269
see impairment losses recognized in earnings(2)	$ 1,127,889

(1) Represents the noncredit component of the other-than-temporary impairment on securities
(2) Represents the credit component of the other-than-temporary impairment on securities

Activity related to the credit component recognized in earnings on debt securities held by the Company for which a portion of other-than-temporary impairment was recognized in other comprehensive loss periods ending June 30, 2009 is as follows:

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Beginning Balance	$ 0	$ 0
Additions for the credit component on debt securities in which other-than-temporary impairment was not previously recognized	1,127,889	1,127,889
Ending Balance	$1,127,889	$ 1,127,889

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

Business

The following provides Management's comments on the financial condition and results of operations of Salisbury Bancorp, Inc. (the "Company"), a Connecticut corporation that is the holding company for Salisbury Bank and Trust Company (the "Bank"). The Company's sole subsidiary is the Bank, which has seven (7) full service offices including a Trust/Wealth Services Division. Such offices are located in the towns of Canaan, Lakeville, Salisbury and Sharon, Connecticut, Sheffield and South Egremont, Massachusetts, and Dover Plains, New York. In addition, the Bank has received regulatory approvals to open a full-service branch in Millerton, New York. The Company and Bank were formed in 1998 and 1848, respectively. In order to provide a strong foundation for building shareholder value and servicing customers, the Company remains committed to investing in the technological and human resources necessary to developing new personalized financial products and services to meet the needs of customers. This discussion should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

RESULTS OF OPERATIONS

Overview

The Company's net income for the six months ended June 30, 2009 was $898,000. This compares to earnings of $2,064,000 for the same period in 2008. Earnings per share calculated on net income available to common shareholders for the six months ended June 30, 2009 totaled $.45 per share, which compared to earnings per share of $1.23 for the corresponding period in 2008. The decrease can be attributed primarily to accounting adjustments involving a few investments within the Bank's investment portfolio to reflect Other Than Temporary Impairment (OTTI), as well as an increased provision for loan loss, and the special assessment imposed by the Federal Deposit Insurance Corporation (FDIC) upon the banking industry. The additional expenses related to these items were $1,127,889, $745,000 and $244,000, respectively. The Company increased its capital by $8,816,000 in March, 2009, by the issuance of preferred stock pursuant to the U.S. Treasury's Capital Purchase Program under the Troubled Asset Relief Program ("TARP CPP"). While such capital provides an additional cushion against potential unforeseen economic uncertainties during these unprecedented economic times, the cost of such preferred stock reduced the net income available to common shareholders by $134,754 during the three (3) and six (6) month periods ended June 30, 2009. Such reduction to the net income available to common shareholders is considered to be warranted by the additional capital strength, which such preferred stock brings to the Company, and by the ability of the Company to prudently leverage such capital and increase the Company's base of earning assets.

The Company's assets at June 30, 2009 totaled $542,181,000 compared to total assets of $495,754,000 at December 31, 2008. During the first six months of 2009, net loans outstanding, not including loans held-for-sale decreased $3,003,000 or 1.01% to $294,364,000. This compares to total net loans outstanding, not including loans held-for-sale of $297,367,000 at December 31, 2008. This decrease is primarily attributable to decreased loan demand during the period. Non-performing loans totaled $6,707,000 at June 30, 2009 or 2.25% of total loans outstanding. This compares to non-performing loans totaling $5,091,000 at December 31, 2008 or 1.68% of total loans outstanding. The Bank continues to monitor the quality of the loan portfolio to ensure that loan quality will not be sacrificed for growth or otherwise compromise the Company's objectives. Deposits at June 30, 2009 totaled $402,033,000 as compared to total deposits of $344,925,000 at December 31, 2008.

The Company is "well capitalized". The Company's total risk based capital ratio was 14.27%; the Tier 1 capital ratio was 13.30% and the leverage ratio was 9.02%. On July 8, 2009, the Board of Directors declared a cash dividend of $.28 per common share, which was paid on August 5, 2009 to shareholders of record as of July 22, 2009. This compared to a cash dividend of $.28 per common share that was declared during the second quarter of 2008. As a result, year-to-date dividends as of June 30, 2009 total $.28 per common share outstanding for this year. This compares to total year-to-date dividends of $.56 per common share one year ago. The $.28 dividend for the second quarter, which was not declared until July 8, 2009, will be reflected in the financial statements for the three (3) and nine (9) month periods ending September 30, 2009. Future dividends will depend upon the condition and earnings of the Company as well as its need for capital to support continued growth as well as to provide for the

eventual repayment of the U.S. Treasury TARP CPP preferred stock. The Company anticipates redeeming the preferred stock as soon as it is practicable and warranted by prevailing local and national economic conditions.

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 changing conditions, which could have an adverse impact on reported earnings in the future. See "Provisions and Allowance for Loan Losses."

SIX MONTHS ENDED JUNE 30, 2009
AS COMPARED TO SIX MONTHS ENDED JUNE 30, 2008

Net Interest and Dividend Income

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

(amounts in thousands)	Six Months Ended June 30 2009	2008
Total Interest and Dividend Income (financial statements)	$12,873	$13,259
Tax Equivalent Adjustment	658	594
Total Interest and Dividend Income (on an FTE basis)	13,531	13,853
Total Interest Expense	4,592	5,718
Net Interest and Dividend Income-FTE	$ 8,939	$ 8,135

Total interest and dividend income on a FTE basis for the six months ended June 30, 2009, when compared to the same period in 2008, decreased $322,000 or 2.32%. The decrease was primarily attributable to an economic environment of lower interest rates.

Interest expense on deposits for the first six months of 2009 totaled $2,995,000, a decrease of $644,000 or 17.70% which compared to $3,639,000 for the same period in 2008. The Bank's volume of Federal Home Loan Bank advances outstanding at June 30, 2009 decreased 12.22% when compared to total advances outstanding at December 31, 2008, resulting in a decrease of interest expense totaling $548,000. During the fourth quarter of 2008, the Bank prepaid a $19 million advance from the Federal Home Loan Bank of Boston at a cost of $674,000 net of tax. The Bank took such action as part of a program to restructure a portion of the Bank's borrowings. The restructuring decreased borrowing expense in 2009. Total interest expense for the six months ended June 30, 2009 was $4,592,000, a decrease of $1,126,000 or 19.69% when compared to the same period in 2008. This decrease is a result of an economic environment of generally lower interest rates combined with lower volumes of funds borrowed from the Federal Home Loan Bank.

Overall, net interest and dividend income (on an FTE basis) increased $804,000 or 9.88% to $8,939,000 for the period ended June 30, 2009 when compared to the same period in 2008.

Noninterest Income

Noninterest income totaled $1,902,000 for the six months ended June 30, 2009. This is a decrease of $684,000 or 26.45% compared to noninterest income of $2,586,000 for the six months ended June 30, 2008. A declining movement of market rates resulted in decreased income of the Trust/Wealth Advisory Services Division of $171,000 or 14.99% to $970,000 for the period ended June 30, 2009. This compares to income totaling $1,141,000 for the corresponding period in 2008. Gains on sales of available-for-sale securities totaled $436,000 for the first six months of 2009 compared to a gain of $354,000 for the same period in 2008. The Company's investment portfolio is analyzed for impairment on a quarterly basis. At June 30, 2009, Management determined that five securities exhibited varying levels of impairment, which in the aggregate totaled $1,128,000. This determination necessitated an impairment loss of that amount, which after taxes represented a loss of approximately $740,000. Other income which primarily consists of fees associated with transaction accounts, fees related to the origination and servicing of mortgage loans and gains related to the sale of mortgage loans increased $532,000 or 48.76% to $1,623,000 from $1,091,000 during the period ended June 30, 2009.

Noninterest Expense

Noninterest expense increased 17.39% for the first six months of 2009 as compared to the same period in 2008. This increase is primarily attributable to an increase in FDIC insurance rates and the special assessment imposed by the FDIC upon the banking industry. The additional expenses related to these items are $270,000 and $244,000, respectively. Other increases in the described noninterest expenses in the table below generally reflect business volume and related growth. The components of noninterest expense and the changes in the period were as follows:

	2009	2008	Change	% Change
Salaries and employee benefits	$4,547,153	$4,077,370	$469,783	11.52
Occupancy expense	502,082	462,702	39,380	8.51
Equipment expense	440,018	431,302	8,716	2.02
Data Processing	713,600	695,154	18,446	2.65
Insurance	55,483	69,908	(14,425)	(20.63
FDIC Insurance	533,204	19,607	513,597	2,619.46
Printing and stationery	167,183	134,509	32,674	24.29
Professional fees	524,628	433,444	91,184	21.04
Legal expense	207,953	166,236	41,717	25.10
Amortization of core deposit intangible	82,107	82,108	(1)	0.00
Other expense	851,361	774,600	76,761	9.91
Total noninterest expense	$8,624,772	$7,346,940	$1,277,832	17.39

Income Taxes

The income tax provision for the first six months of 2009 totaled a credit of $85,000 in comparison to a provision of $546,000 for the same six-month period in 2008. Pretax income in 2009 was $813,000 and included tax-exempt income totaling $1,277,000. Pretax income in 2008 was $2,610,000 and included tax-exempt income totaling $1,153,000. The decrease in the income tax provision is primarily attributable to a decrease in taxable income.

Net Income

Overall, net income totaled $898,000 for the six months ended June 30, 2009. Net income available to shareholders totaled $763,000 for the six (6) months ended June 30, 2009 and represents earnings of $.45 per average share outstanding. This compares to net income of 2,064,000 or $1.23 per average share outstanding for the same period in 2008. The costs of the preferred stock represented $134,754 of the total decrease of $1,301,425 in net income available to common shareholders during the six (6) month period ended June 30, 2009.

THREE MONTHS ENDED JUNE 30, 2009

AS COMPARED TO THREE MONTHS ENDED JUNE 30, 2008

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 2009	2008
Total Interest and Dividend Income (financial statements)	$ 6,386	$ 6,591
Tax Equivalent Adjustment	326	298
Total Interest and Dividend Income (on an FTE basis)	6,712	6,889
Total Interest (Expense)	(2,308)	(2,710)
Net Interest and Dividend Income-FTE	$ 4,404	$ 4,179

Total interest and dividend income on an FTE basis for the three months ended June 30, 2009 decreased $177,000 or 2.57% compared to the same period in 2008. The decrease was primarily attributable to a decrease in interest rates. Interest expense on deposits decreased $155,000 or 9.30% for the quarter to $1,511,000 compared to $1,666,000 for the same quarter in 2008. This decrease is primarily the result of an economic environment of generally lower interest rates. The Bank's volume of Federal Home Loan Bank advances decreased during the three-month period ended June 30, 2009 when compared to the corresponding period in 2008. Interest expense on these advances decreased $274,000 or 26.27% and totaled $769,000 for the three months ended June 30, 2009 compared to $1,043,000 for the corresponding period in 2008. During the fourth quarter of 2008, the Bank prepaid a $19 million advance from the Federal Home Loan Bank of Boston at a cost of $674,000 net of tax. The Bank took such action as part of a program to restructure a portion of the Bank's borrowings. The restructuring decreased borrowing expense in 2009. Total interest expense for the three months ending June 30, 2009 was $2,308,000 compared to total interest expense for the same period in 2008 of $2,710,000, a decrease of $402,000 or 14.83%. Overall, net interest and dividend income (on a FTE basis) increased $225,000 or 5.38% to $4,404,000 for the three-month period ended June 30, 2009 when compared to the corresponding period in 2008.

Noninterest Income

Noninterest income totaled $196,000 for the three months ended June 30, 2009 as compared to $1,153,000 for the three months ended June 30, 2008. The second quarter performance is attributed primarily to accounting adjustments involving investments within the Bank's investment portfolio to reflect Other Than Temporary Impairment (OTTI) totaling $1,128,000 as previously discussed.

Noninterest Expense

Noninterest expense totaled $4,491,000 for the three month period ended June 30, 2009 as compared to $3,697,000 for the same period in 2008, an increase of $794,000 or 21.48%. Although there are increases in noninterest expenses that are attributable to normal volumes of business, much of the overall increase in the noninterest expenses listed in the table below is attributable to an increase in FDIC insurance rates and the special assessment imposed by the FDIC upon the banking industry. The additional expenses related to these items are $165,000 and $244,000 respectively. The components of noninterest expense and the changes in the period were as follows:

	2009	2008	Change	% Change
Salaries and employee benefits	$2,282,050	$2,001,197	$ 280,853	14.03%
Occupancy expense	244,963	232,175	12,788	5.51
Equipment expense	213,301	220,215	(6,914)	(3.14)
Data Processing	330,164	390,539	(60,375)	(15.46)
Insurance	32,033	34,915	(2,882)	(8.25)
FDIC Insurance	419,702	10,700	409,002	3,822.45
Printing and stationery	101,214	75,001	26,213	34.95
Professional fees	263,287	199,234	64,053	32.15
Legal expense	112,594	104,809	7,785	7.43
Amortization of core deposit intangible	41,054	41,054	0	0.00
Other expense	450,620	387,105	63,515	16.41
Total noninterest expense	$4,490,982	$3,696,944	$ 794,038	21.48%

Income Taxes

The income tax provision for the three-month period ended June 30, 2009 totaled $(348,000) in comparison to $245,000 for the same three month period in 2008. The decrease in the income tax provision is attributable to a decrease in taxable income.

Net Income (Loss)

Overall, the Company incurred a net loss of $(183,000) for the three months ended June 30, 2009, and net income (loss) available to common shareholders totaled $(318,000), which represents a loss of $(.19) per average share of common stock outstanding. This compares to net income of $984,000 for the same period in 2008, a decrease of $1,167,000 and compares to earnings per share of $.58 for the 2008 period. The costs of the preferred stock represented $134,754 of the total decrease of $1,301,666 in net income available to common shareholders during the three (3) month period ended June 30, 2009.

FINANCIAL CONDITION

Total assets at June 30, 2009 were $542,181,000 compared to $495,754,000 at December 31, 2008, an increase of 9.36%. The asset growth is primarily in cash and cash equivalents, which enhance the Company's liquidity. Such increase is primarily attributable to the result of the Company's participation in TARP CPP, which was closed on March 13, 2009 in the amount of $8,816,000, which funds were deployed by the Company in short-term liquid assets. Liabilities also increased due to the inflow of interest-bearing deposits, reflecting the preference of customers for the safety of deposits versus the uncertainty in the equity markets, an increase in the savings rate from a consumer standpoint, and a concerted effort by the Bank's staff to expand deposit relationships with customers.

Securities

The make up of the securities portfolio is diversified among U.S. Government sponsored agencies, mortgage-backed securities and securities issued by states of the United States and political subdivisions of the states. None of the securities owned in the portfolio are collateralized by sub-prime mortgages. During the six months ended June 30, 2009, the securities portfolio, including Federal Home Loan Bank stock, increased $8,793,000 or 5.64% to $164,709,000 from $155,916,000 at December 31, 2008.

Securities are classified in the portfolio as either securities available-for-sale or securities held-to-maturity. Almost all securities are classified as available-for-sale. The securities reported as available-for-sale are stated at fair value in the financial statements of the Company. Unrealized gains and losses on available-for-sale securities (accumulated other comprehensive income/loss) are not included in earnings, but are reported as a net amount (less expected tax) in a separate component of capital until realized. At June 30, 2009, the unrealized loss net of tax was $7,140,000. This compares to an unrealized loss net of tax of $6,968,000 at December 31, 2008. The unrealized losses in these securities are attributable to changes in market interest rates. A review and analysis of the securities

portfolio determined that there had been credit deterioration in five investments, which in the aggregate totaled $1,127,889. This determination necessitated an impairment loss of that amount, which after taxes netted out to approximately $740,000. Management deems the remaining 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 increase in the portfolio is a reflection of securities being purchased in order to deploy excess funds available due to the influx of deposits.

Lending

Net loans outstanding (not including loans held-for-sale) totaled $294,364,000 at June 30, 2009 compared to net loans outstanding (not including loans held-for-sale) of $297,367,000 at December 31, 2008, a decrease of $3,003,000 or 1.01%. The current economic environment has resulted in decreased loan demand.

The following table represents the composition of the loan portfolio comparing June 30, 2009 to December 31, 2008:

	June 30, 2009	December 31, 2008
Commercial, financial and agricultural	$ 24,128,516	$ 20,784,842
Real estate-construction and land development	27,371,138	33,342,610
Real estate-residential	171,730,965	177,048,233
Real estate-commercial	68,057,340	62,796,469
Consumer	5,050,462	5,551,172

Other	916,218	174,965
	297,254,639	299,698,291
Deferred costs, net	418,017	393,228
Unearned income	(5)	(61)
Allowance for loan losses	(2,724,024)	(3,308,619)
Net Loans	$ 294,364,032	$ 297,367,434

Provisions and Allowance for Loan Losses

Credit risk is inherent in the business of extending loans. The Bank monitors the quality of the portfolio to ensure that loan quality will not be sacrificed for growth or otherwise compromise the Bank's objectives. Because of this risk associated with extending loans, the Bank maintains an allowance for loan losses through charges to earnings. The provision expense for allowances for loan losses for the first six months of 2009 totaled $745,000, compared to $170,000 provision expense for loan losses for the comparable period in 2008.

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, 2009. Such evaluations are based on assessments of credit quality and "risk rating" of loans by senior management, which is reviewed by the Bank's Loan Committee on a regular basis. Loans are initially risk rated when originated. If there is deterioration in the credit, the risk rating is adjusted accordingly.

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

Any such commercial loan or residential mortgage may be considered impaired due to 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.

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

Concentrations of credit and local economic factors are also evaluated on a periodic basis. Historical average net losses by loan type are examined as well as trends by type. The Bank's loan mix over the same period 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, and OREO properties are closely monitored by Management. At June 30, 2009, nonperforming loans totaled $6,707,000 or 2.25% of total loans outstanding of $297,673,000. The allowance for loan losses totaled $3,309,000 representing 49.33% of nonperforming loans. Nonperforming loans totaled $5,174,601 or 1.73% of total loans outstanding, (which does not include loans held-for-sale) of $299,698,291 at December 31, 2008. The allowance for loan losses totaled $2,724,024 at December 31, 2008 and represented 52.64% of nonperforming loans. A total of $176,000 of loans was charged-off by the Bank during the six months ended June 30, 2009. These charged-off loans consisted primarily of commercial loans. This compares to loans charged-off during the six-month period ended June 30, 2008 of $42,000. A total of $16,000 of previously charged-off loans was recovered during the six month period ended June 30, 2009. Recoveries for the same period in 2008 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. At June 30, 2009, the Bank had other real estate owned (OREO) in the amount of $418,000, which is one commercial property.

Deposits

The Company offers a variety of deposit accounts with a range of interest rates and terms. Total deposits increased 16.56% from December 31, 2008 to June 30, 2009. The following table illustrates the composition of the Company's deposits at June 30, 2009 and December 31, 2008:

	June 30, 2009	December 31, 2008
Demand	$ 64,781,251	$ 65,479,271
NOW	33,296,274	26,097,175
Money Market	68,445,264	57,648,106
Savings	81,575,387	70,180,841
Time	153,934,430	125,519,839
Total Deposits	$402,032,606	$ 344,925,232

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, 2009, the Company had $77,174,000 in outstanding advances from the Federal Home Loan Bank compared to

$87,914,000 at December 31, 2008. With the large increase in deposits, Management has not had to supplement 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, 2009:

June 30, 2009
(amounts in thousands)

By remaining maturity	Less than 1 year	1 -3 years	4-5 years	After 5 years	Total
Off-balance sheet lending-related Financial Instruments					
Residential real estate related	$2,136	$ 0	$ 4	$34,198	$36,33
Commercial related	1,995	4,378	2,197	10,235	18,80
Consumer related					1,31
Standby letters of credit		3			
Total	$4,131	$4,381	$2,201	$45,746	$56,45

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, 2009, the Company maintains an asset sensitive (positive gap) position. This would suggest that during a period of increasing interest rates, the Company would be in a better position to increase net interest income. To the contrary, during a period of declining interest rates, a positive gap would result in a decrease in interest income. The level of interest rate risk at June 30, 2009 was within the limits approved by the Board of Directors.

Liquidity

Liquidity is the ability to raise funds on a timely basis at an acceptable cost in order to meet cash needs. Adequate liquidity is necessary to handle fluctuations in deposit levels, to provide for customers' credit needs, and to take advantage of investment opportunities as they are presented. The Company manages liquidity primarily with readily marketable investment securities, deposits and loan repayments. The Company's subsidiary, the Bank, is a member of the Federal Home Loan Bank of Boston. This enhances the liquidity position by providing a source of available borrowings. At June 30, 2009, the Company had approximately $56,459,000 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, 2009, the Company had $47,995,000 in shareholders' equity, an increase of 23.26% when compared to December 31, 2008 shareholders' equity totaling $38,939,000. While most of such increase reflects an increase resulting from the issuance of 8,816,000 in preferred stock pursuant to the U.S. Treasury TARP CPP in March, 2009, several other components contributed to the change since December 31, 2008. Earnings for the six-month period ended June 30, 2009 totaled $898,000. 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, 2009 resulted in a net change in other comprehensive loss totaling $172,000. The Company's capital was increased by $8,816,000 in March 2009 by the issuance of preferred stock pursuant to the U.S. Treasury's TARP CPP. The application of SFAS No. 158, as described in Note 3 resulted in other comprehensive income net of tax of $43,000 for the six-month period ended June 30, 2009. The Company declared a quarterly dividend to shareholders resulting in a decrease in capital of $472,000. The Company paid a dividend of $76,000 to the U.S. Treasury's TARP CPP. 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 $19,000.

Under current regulatory definitions, the Company and the Bank are considered to be "well capitalized" for capital adequacy purposes. As a result, the Bank pays lower federal deposit insurance premiums than those banks that are not "well capitalized". One primary measure of capital adequacy for regulatory purposes is based on the ratio of risk-based capital to risk-weighted assets. This method of measuring capital adequacy helps to establish capital requirements that are more sensitive to the differences in risk associated with various assets. It takes into account off-balance sheet exposure in assessing capital adequacy and it minimizes disincentives to holding liquid, low-risk assets. At June 30, 2009, the Company had a total risk-based capital ratio of 14.27% compared to 11.59% at December 31, 2008. Maintaining strong capital is essential to bank safety and soundness. However, the effective management of capital resources requires generating attractive returns on equity to build value for shareholders while maintaining appropriate levels of capital to fund growth, meet regulatory requirements and be consistent with prudent industry practices.

Impact of Inflation and Changing Prices

The Company's consolidated financial statements are prepared in conformity with generally accepted accounting principles 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 affect 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 environments 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 4. Controls and Procedures.

The Company's Chief Executive Officer and Interim Chief Financial Officer concluded that, based upon an evaluation as of June 30, 2009, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to the Company's management including its Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

During the fiscal quarter ended June 30, 2009 there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. - Legal Proceedings.

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

The litigation involves the ownership of certain real property located within Westport, Connecticut, which was conveyed by the Defendant, Erling C. Christophersen, to the Erling C. Christophersen Trust, of which the Bank was a co-Trustee. Subsequent to this conveyance, the Bank loaned $3,386,609, to the Erling

Christophersen Trust, which was secured by an open-end commercial mortgage in favor of the Bank on the Westport real estate referenced above.

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

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

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

Item 2. -Unregistered Sales of Equity Securities and Use of Proceeds. On May 29, 2009, the Company issued 840 shares of common stock to members of its Board of Directors under the terms of the Director Stock Retainer Plan. The shares were issued in a private transaction in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. No cash consideration was received upon issuance of the shares.

Item 3. - Defaults Upon Senior Securities. None

Item 4. - Submission of Matters to a Vote of Security Holders. The Annual Meeting of Shareholders of the Company, was held on Wednesday, May 27, 2009. Shareholders voted on the election of directors, the ratification of the appointment of independent auditors and the non-binding advisory vote on the compensation of named executive officers.

The results of the votes of shareholders regarding each proposal are set forth below:

PROPOSAL 1
ELECTION OF DIRECTORS

Each of the three nominees received in excess of a plurality of the votes cast at the meeting and were elected to serve until their term expires or their successors are elected and qualified.

The vote for electing nominees as directors was as follows:

		For	Withholding Authority
John R. H. Blum	Number of shares	1,313,082	37,956
	Percentage of Shares Voted:	97.2%	2.8%
	Percentage of Shares Entitled to Vote:	77.8%	2.3%

		For	Withholding Authority
Holly J. Nelson	Number of shares	1,320,229	30,809
	Percentage of Shares Voted:	97.7%	2.3%
	Percentage of Shares Entitled to Vote:	78.3%	1.8%

		For	Withholding Authority
John F. Perotti	Number of shares	1,318,547	32,491
	Percentage of Shares Voted:	97.6%	2.4%
	Percentage of Shares Entitled to Vote:	78.2%	1.9%

PROPOSAL 2
RATIFICATION OF THE APPOINTMENT OF INDEPENDENT AUDITORS

The appointment of Shatswell, MacLeod & Company, P.C. as independent auditors for the Company for the year ending December 31, 2009 was approved because the votes for such appointment exceeded the votes against such appointment.

The vote to ratify the appointment of Shatswell, MacLeod & Company, P.C. as independent auditors for the Company for the year ending December 31, 2009 was as follows:

	For	Against	Abstain
Number of Shares:	1,345,599	1,815	3,624
Percentage of Shares Voted:	99.6%	.1%	.3%
Percentage of Shares Entitled to Vote:	79.8%	.1%	.2%

PROPOSAL 3
NON-BINDING ADVISORY VOTE ON THE COMPENSATION
OF NAMED EXECUTIVE OFFICERS

The vote to approve the non-binding advisory vote on the compensation of named executive officers was as follows:

	For	Against	Abstain
Number of Shares:	1,225,678	56,220	69,143
Percentage of Shares Voted:	90.7%	4.2%	5.1%

Percentage of Shares Entitled to Vote:	72.7%	3.3%	4.1%

Item 5. - Other Information. None

Item 6. - Exhibits

11 Computation of Earnings (Loss) per Share.

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

32- Section 1350 Certifications of CEO and Interim CFO.

SALISBURY BANCORP, INC.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Salisbury Bancorp, Inc.

Date: August 14, 2009 by: /s/ Richard J. Cantele, Jr.

Richard J. Cantele, Jr.
President and Chief Executive Officer

Date: August 14, 2009 by: /s/ Richard J. Cantele, Jr.

Richard J. Cantele, Jr.
Interim Chief Financial Officer