# U.S. SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

**x QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2008**

**OR**

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

**For the transition period from ______ to ______**

**Commission file number 000-51843**

# ALARION FINANCIAL SERVICES, INC.

**(Exact Name of Small Business Issuer as Specified in Its Charter)**

| | |
|---|---|
| **Florida**<br>**(State or Other Jurisdiction of Incorporation or Organization)** | **20-3851373**<br>**(I.R.S. Employer Identification No.)** |
| **One Northeast First Avenue, Ocala, Florida**<br>**(Address of Principal Executive Offices)** | **34470**<br>**(Zip Code)** |

**Registrant's Telephone Number, Including Area Code (352) 237-4500**

**Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report.**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definition 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 | ¨ (Do not check if a smaller reporting company) | 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

| | |
|---|---|
| **Common stock, par value $.01 per share** | **2,653,208 shares outstanding at November 10, 2008** |

**ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY**

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**ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY**

**Part I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Condensed Consolidated Balance Sheets**
**($ in thousands, except per share amounts)**

| | At September 30, 2008 (unaudited) | At December 31, 2007 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 4,227 | 1,805 |
| Interest-earning deposits and federal funds sold | 20,468 | 1,833 |
| Cash and cash equivalents | 24,695 | 3,638 |
| Interest bearing time deposits in banks | 2,961 | 2,046 |
| Securities available for sale | 11,594 | 20,537 |
| Loans, net of allowance for loan losses of $2,457 and $2,046 | 197,499 | 164,051 |
| Accrued interest receivable | 651 | 931 |
| Premises and equipment, net | 13,027 | 9,603 |
| Federal Home Loan Bank stock, at cost | 1,311 | 836 |
| Deferred income taxes | 896 | 909 |
| Other assets | 942 | 853 |
| Total assets | $ 253,576 | 203,404 |
| **Liabilities and Stockholders' Equity** | | |
| Liabilities: | | |
| Noninterest-bearing demand deposits | 17,768 | 13,159 |
| NOW, money-market and savings deposits | 39,402 | 34,932 |
| Time deposits < $100,000 | 93,222 | 67,867 |
| Time deposits > = $100,000 | 49,708 | 48,285 |
| Total deposits | 200,100 | 164,243 |
| Federal Home Loan Bank advances | 21,000 | 13,000 |
| Other borrowings | 5,558 | 4,807 |
| Accrued interest payable | 1,069 | 799 |
| Accrued expenses and other liabilities | 910 | 304 |
| Total liabilities | 228,637 | 183,153 |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value; 1,000,000 shares authorized, none issued or outstanding | — | — |
| Common stock, $.01 par value; 4,000,000 shares authorized, 2,653,208 and 2,183,485 shares issued and outstanding in 2008 and 2007 | 27 | 22 |
| Additional paid-in capital | 26,569 | 21,856 |
| Accumulated deficit | (1,641) | (1,657) |
| Accumulated other comprehensive (loss) income | (16) | 30 |
| Total stockholders' equity | 24,939 | 20,251 |
| Total liabilities and stockholders' equity | $ 253,576 | 203,404 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY**

**Condensed Consolidated Statements of Operations (Unaudited)**
**($ in thousands, except per share amounts)**

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|---|---|
| Interest income: | | | | |
| Loans | $ 3,004 | 2,760 | 8,718 | 7,456 |
| Securities | 143 | 276 | 566 | 675 |
| Other | 83 | 260 | 260 | 514 |
| Total interest income | 3,230 | 3,296 | 9,544 | 8,645 |
| Interest expense: | | | | |
| Deposits | 1,623 | 1,719 | 4,969 | 4,340 |
| Borrowings | 162 | 180 | 469 | 517 |
| Total interest expense | 1,785 | 1,899 | 5,438 | 4,857 |
| Net interest income | 1,445 | 1,397 | 4,106 | 3,788 |
| Provision for loan losses | 170 | 135 | 411 | 475 |
| Net interest income after provision for loan losses | 1,275 | 1,262 | 3,695 | 3,313 |
| Noninterest income: | | | | |
| Deposit account fees | 88 | 72 | 244 | 172 |
| Net gain on sales of loans held for sale | — | — | — | 197 |
| Loan brokerage fees | 192 | 192 | 622 | 412 |
| Other | 6 | 25 | 16 | 84 |
| Total noninterest income | 286 | 289 | 882 | 865 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 885 | 862 | 2,512 | 2,408 |
| Occupancy and equipment | 201 | 192 | 575 | 539 |
| Data processing | 120 | 98 | 345 | 266 |
| Professional services | 55 | 40 | 160 | 122 |
| Advertising and promotion | 34 | 46 | 122 | 140 |
| Office supplies and printing | 36 | 41 | 97 | 113 |
| Other | 257 | 215 | 709 | 542 |
| Total noninterest expense | 1,588 | 1,494 | 4,520 | 4,130 |
| Earnings (loss) before income tax (benefit) expense | (27) | 57 | 57 | 48 |
| Income tax (benefit) expense | (4) | 32 | 41 | 25 |
| Net (loss) earnings | $ (23) | 25 | 16 | 23 |
| (Loss) earnings per share – basic | $ (.01) | 0.01 | 0.01 | 0.01 |
| (Loss) earnings per share – diluted | $ (.01) | 0.01 | 0.01 | 0.01 |
| Weighted-average number of common shares outstanding, basic | 2,653,208 | 2,179,849 | 2,578,967 | 2,105,162 |
| Weighted-average number of common shares outstanding, diluted | 2,653,208 | 2,199,701 | 2,578,967 | 2,128,711 |
| Dividends per share | $ — | — | — | — |

See accompanying Notes to Condensed Consolidated Financial Statements.

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## ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY

### Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
### Nine Months Ended September 30, 2008 and 2007
### ($ in thousands)

| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive (Loss) Income | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balance at December 31, 2006 | 1,607,140 | $ 16 | 16,002 | (1,660) | (21) | 14,337 |
| Comprehensive income: | | | | | | |
| Net earnings (unaudited) | — | — | — | 23 | — | 23 |
| Net change in unrealized loss on securities available for sale, net of taxes (unaudited) | — | — | — | — | 28 | 28 |
| Comprehensive income (unaudited) | | | | | | 51 |
| Share-based compensation (unaudited) | — | — | 57 | — | — | 57 |
| Stock options and warrants exercised (unaudited) | 574,731 | 6 | 5,741 | — | — | 5,747 |
| Balance at September 30, 2007 (unaudited) | 2,181,871 | $ 22 | 21,800 | (1,637) | 7 | 20,192 |
| Balance at December 31, 2007 | 2,183,485 | $ 22 | 21,856 | (1,657) | 30 | 20,251 |
| Comprehensive loss: | | | | | | |
| Net earnings (unaudited) | — | — | — | 16 | — | 16 |
| Net change in unrealized gain on securities available for sale, net of taxes (unaudited) | — | — | — | — | (46) | (46) |
| Comprehensive loss (unaudited) | | | | | | (30) |
| Share-based compensation (unaudited) | — | — | 21 | — | — | 21 |
| Stock options and warrants exercised (unaudited) | 469,723 | 5 | 4,692 | — | — | 4,697 |
| Balance at September 30, 2008 (unaudited) | 2,653,208 | $ 27 | 26,569 | (1,641) | (16) | 24,939 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY**

**Condensed Consolidated Statements of Cash Flows (Unaudited)**
**(In thousands)**

| | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings | $ 16 | 23 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Provision for loan losses | 411 | 475 |
| Share-based compensation | 21 | 57 |
| Depreciation and amortization | 293 | 255 |
| Deferred income tax expense | 40 | 25 |
| Net amortization of deferred loan fees and costs | 105 | 121 |
| Net gain on sales of loans held for sale | — | (197) |
| Loans originated for sale | — | (5,424) |
| Proceeds from sales of loans held for sale | — | 8,057 |
| Net increase in accrued interest payable | 270 | 308 |
| Net decrease (increase) in accrued interest receivable | 280 | (266) |
| Net increase in other assets | (89) | (31) |
| Net increase in accrued expenses and other liabilities | 606 | 806 |
| Net cash provided by operating activities | 1,953 | 4,209 |
| Cash flows from investing activities: | | |
| Proceeds from principal repayments and maturities on securities available for sale | 15,868 | 9,300 |
| Purchase of securities available for sale | (6,998) | (16,000) |
| Purchase of time deposits | (915) | (39) |
| Loan disbursements, net of repayments | (33,964) | (45,780) |
| Purchases of premises and equipment | (4,163) | (2,170) |
| Proceeds from sale of premises and equipment | 446 | — |
| Purchase of Federal Home Loan Bank stock | (475) | (241) |
| Net cash used in investing activities | (30,201) | (54,930) |
| Cash flows from financing activities: | | |
| Net increase in deposits | 35,857 | 54,638 |
| Net increase in other borrowings | 751 | 1,516 |
| Net increase in advances from Federal Home Loan Bank | 8,000 | 3,000 |
| Proceeds from common stock options and warrants exercised | 4,697 | 5,747 |
| Net cash provided by financing activities | 49,305 | 64,901 |
| Net increase in cash and cash equivalents | 21,057 | 14,180 |
| Cash and cash equivalents at beginning of period | 3,638 | 6,734 |
| Cash and cash equivalents at end of period | $ 24,695 | 20,914 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest, net of capitalized interest of $157 and $107 | $ 5,168 | 4,656 |
| Income taxes | $ — | — |
| Noncash transaction - | | |
| Accumulated other comprehensive income (loss), net change in unrealized gain (loss) on securities available for sale, net of taxes | $ (46) | 28 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**1. *Basis of Presentation.*** In the opinion of the management of Alarion Financial Services, Inc. (the "Holding Company"), the accompanying condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position at September 30, 2008 and the results of operations for the three- and nine-month periods ended September 30, 2008 and 2007 and cash flows for the nine-month periods ended September 30, 2008 and 2007. The results of operations for the three- and nine-month periods ended September 30, 2008, are not necessarily indicative of results that may be expected for the year ending December 31, 2008.

The Holding Company owns 100% of the common stock of Alarion Bank (the "Bank") (together the "Company"). The Holding Company's primary activity is the operation of the Bank. The Bank is a state (Florida)-chartered commercial bank. The Bank offers a variety of banking and financial services to individual and corporate customers through its six banking offices located in Ocala and Gainesville, Florida. The deposit accounts of the Bank are insured up to the applicable limits by the Federal Deposit Insurance Corporation.

**2. *Loans*.** The components of loans are summarized as follows (in thousands):

| | | At September 30, 2008 | At December 31, 2007 |
|---|---|---|---|
| Commercial real estate | | $ 100,802 | 80,652 |
| Residential real estate and home equity | | 33,814 | 28,784 |
| Construction | | 41,949 | 39,722 |
| Commercial | | 20,101 | 13,889 |
| Consumer | | 2,949 | 2,699 |
| Total loans | | 199,615 | 165,746 |
| Add/Deduct: | Allowance for loan losses | (2,457) | (2,046) |
| | Deferred loan costs, net | 341 | 351 |
| Loans, net | | $ 197,499 | 164,051 |

(continued)

**ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (Unaudited), Continued**

**3.** ***Loan Impairment and Loan Losses*****.** An analysis of the change in the allowance for loan losses follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Balance at beginning of period | $ 2,287 | 1,685 | 2,046 | 1,345 |
| Provision for loan losses | 170 | 135 | 411 | 475 |
| Balance at September 30 | $ 2,457 | 1,820 | 2,457 | 1,820 |

The following is a summary of information regarding nonaccrual and impaired loans (in thousands):

| | At September 30, 2008 | At December 31, 2007 |
|---|---|---|
| Nonaccrual loans | $ 1,177 | — |
| Accruing loans past due ninety days or more | $ — | — |
| Balance of impaired loan | $ 743 | — |
| Allowance on this loan | $ 371 | — |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Interest income recognized on impaired loans | $ — | — | — | — |
| Interest income received on impaired loans | $ — | — | — | — |
| Average net recorded investment in impaired loans | $ 371 | — | 423 | — |

(continued)

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**4.** ***Earnings (Loss) Per Share.*** Earnings (loss) per share ("EPS") of common stock has been computed on the basis of the weighted-average number of shares of common stock outstanding. Outstanding stock options and warrants were not considered dilutive securities for the three month period ended September 30, 2008 due to the net loss incurred by the Company. Outstanding stock options and warrants are considered dilutive securities for the three and nine month periods ended September 30, 2007 and nine month period ended September 30, 2008 for the purposes of calculating diluted EPS, which is computed using the treasury stock method. The following table represents the calculations of the weighted-average number of shares for diluted EPS (in thousands, except per share amounts).

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Earnings | Weighted-Average Shares | Per Share Amount | Earnings (Loss) | Weighted-Average Shares | Per Share Amount |
| ***Three Months Ended September 30:*** | | | | | | |
| Basic EPS: | | | | | | |
| Net (loss) earnings available to common stockholders | $ (23) | 2,653 | $(0.01) | $ 25 | 2,180 | $ 0.01 |
| Effect of dilutive securities- | | | | | | |
| Incremental shares from assumed conversion of options and warrants | | — | | | 20 | |
| Diluted EPS: | | | | | | |
| Net earnings (loss) available to common stockholders and assumed conversions | $ (23) | 2,653 | $(0.01) | $ 25 | 2,200 | $ 0.01 |
| ***Nine Months Ended September 30:*** | | | | | | |
| Basic EPS: | | | | | | |
| Net earnings available to common stockholders | $ 16 | 2,579 | $ 0.01 | $ 23 | 2,105 | $ 0.01 |
| Effect of dilutive securities- | | | | | | |
| Incremental shares from assumed conversion of options and warrants | | — | | | 24 | |
| Diluted EPS: | | | | | | |
| Net earnings available to common stockholders and assumed conversions | $ 16 | 2,579 | $ 0.01 | $ 23 | 2,129 | $ 0.01 |

For the three- and nine-month periods ended September 30, 2008, the following options were excluded from the calculation of earnings per share due to the exercise price exceeding the average market price for the period.

| Number of Outstanding Options | Exercise Price | Expiration Date |
|---|---|---|
| 64,032 | $ 10.50 | 2017 |
| 10,000 | $ 10.50 | 2018 |

The remaining options outstanding have exercise prices equal to the average fair market value of the Company's common stock during the three- and nine-month periods ended September 30, 2008.

(continued)

**ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (Unaudited), Continued**

**5.** ***Share Based Compensation.*** The Company follows the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (R), *Share-Based Payment* ("SFAS 123 (R)"), using the modified-prospective-transition method. Under the transition method, compensation cost recognized includes: (a) compensation cost for all share-base payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value calculated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123 (R). Prior to December 31, 2005, the Company was not considered a public company as defined in SFAS 123 and used the minimum value method to determine stock based compensation. Therefore, the stock options granted in 2005 that vested in 2007 and 2008 are not required to be expensed by the Company upon implementation of SFAS 123(R). The Company recognizes stock-based compensation for all subsequent options granted in salaries and employee benefits in the accompanying consolidated statements of operations on a straight-line basis over the vesting period.

The Company adopted a stock option plan for its employees and directors (the "Plan"). Fifteen percent of the total amount of shares outstanding, up to 450,000 shares (currently 397,981 shares), have been reserved under the Plan. Stock options are granted at an exercise price equal to or greater than the fair market value of the common stock on the date of grant. Options granted to directors vest immediately and for employees, the options primarily vest over two years starting with the date of grant and ending on the second anniversary thereof. At September 30, 2008, there were 133,112 options available for future grants under the Plan. A summary of stock option transactions under the Plan for the nine-month period ended September 30, 2008, follows:

| | Number of Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Options outstanding at December 31, 2007 | 253,808 | $ 10.13 | | |
| Options forfeited | (5,469) | 10.36 | | |
| Options granted | 10,500 | 10.48 | | |
| Options exercised | (17,486) | 10.00 | | |
| Options outstanding at September 30, 2008 | 241,353 | $ 10.15 | 7.74 years | $ — |
| Options exercisable at September 30, 2008 | 216,401 | $ 10.11 | 7.81 years | $ — |

(continued)

**ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (Unaudited), Continued**

**5. *Share Based Compensation, Continued.*** There were no options granted during the three-month period ended September 30, 2008. The fair value of each option granted for the nine-month period ended September 30, 2008 and the three- and nine-month periods ended September 30, 2007 is estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

| | Three Months Ended September 30, | Nine Months Ended September 30, | |
|---|---|---|---|
| | 2007 | 2008 | 2007 |
| Risk-free interest rate | 4.22% | 4.04-4.58% | 4.22% |
| Dividend yield | — % | — % | — % |
| Expected stock volatility | 6.54% | 6.92% | 6.54% |
| Expected life in years | 5.50 | 5.50 | 5.50 |
| Per share grant-date fair value of options issued during the period | $ 2.18 | 2.02-2.22 | 2.18 |

The Company has examined its historical pattern of option exercises in an effort to determine if there were any patterns based on certain employee populations. From this analysis, the Company could not identify any patterns in the exercise of options. As such, the Company used the guidance in Staff Accounting Bulletin No. 107 issued by the Securities and Exchange Commission to determine the estimated life of options. Expected volatility is based on historical volatility of similar size financial institutions. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on the Company’s history and expectation of dividend payments.

There were 17,486 and 666 options exercised during the nine month periods ended September 30, 2008 and 2007, respectively. There was no intrinsic value or tax benefit related to these options exercised. At September 30, 2008, there was approximately $53,000 of total unrecognized compensation expense related to the nonvested share-based compensation arrangement granted under the plan. The cost is expected to be recognized over a weighted-average period of fourteen months. The total fair value of shares vesting and recognized as compensation expense was approximately $21,000 and $57,000 for the nine month period ended September 30, 2008 and 2007, respectively.

(continued)

**ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (Unaudited), Continued**

**6. *Fair Value Measurements.*** On January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* for financial assets and liabilities. This standard defines fair value, provides guidance for measuring fair value and requires certain disclosures. This standard does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. This standard does not apply to measurements related to share-based payments.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The statement utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities that are not active. Such inputs may include interest rates and yield curves, volatilities, prepayment speeds, credit risks, and default rates.
- Level 3: Unobservable inputs to measure fair value of assets and liabilities for which there is little, if any market activity at the measurement date, using reasonable inputs and assumptions based upon the best information at the time, to the extent that inputs are available without undue cost and effort.

Our listing of financial assets subject to fair value measurements on a recurring basis are as follows (in thousands):

| | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|---|
| | Fair Value as of September 30, 2008 | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Available for sale securities | $ 11,594 | — | 11,594 | — |

(continued)

**ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (Unaudited), Continued**

**6. *Fair Value Measurements, Continued.*** Assets measured at fair value on a nonrecurring basis are summarized below (in thousands):

| | Net Carrying Value at September 30, 2008 | | | | Total Losses (1) | |
|---|---|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 | Three Months Ended September 30, 2008 | Nine Months Ended September 30, 2008 |
| Impaired loan | $ 743 | — | — | 743 | — | 371 |

(1) Represents a specific valuation allowance (recorded as part of the overall allowance for loan losses) for one impaired loan totaling $743,000 at September 30, 2008 in accordance with SFAS 114.

*Valuation of Available for Sale Securities.* The fair values of the Company's securities available for sale are determined by third party service providers utilizing various methods dependent upon the specific type of investment. Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds, certain mortgage products and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, include certain collateralized mortgage and debt obligations and certain high-yield debt securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. Securities classified within level 3 include certain residual interests in securitizations and other less liquid securities.

*Valuation of Impaired Loan.* A loan is considered impaired when, based upon current information and events, it is probable that we will be unable to collect all amounts due, including principal and interest according to the contractual terms of the loan agreement. The Company's impaired loans are normally collateral dependent and, as such, are carried at the lower of the Company's net recorded investment in the loan or the estimated fair value of the collateral less estimated selling costs. Adjustments to the recorded investment are made through specific valuation allowances that are recorded as part of the overall allowance for loan losses. Estimates of fair value are determined based on a variety of information, including the use of available appraisals, estimates of the market value by licensed appraisers or local real estate brokers and the knowledge and experience of the Company's management related to values of properties in the Company's market areas. These officers take into consideration the type and location of the property as well as current economic conditions in the area the property is located in assessing estimates of fair value. Accordingly, the fair value estimates for impaired loans is classified as Level 3.

**ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY**

**Review by Independent Registered Public Accounting Firm**

Hacker, Johnson & Smith PA, the Company's independent registered public accounting firm, have made a limited review of the financial data as of September 30, 2008, and for the three- and nine-month periods ended September 30, 2008 and 2007 presented in this document, in accordance with standards established by the Public Company Accounting Oversight Board (United States).

Their report furnished pursuant to Article 10 of Regulation S-X is included herein.

## Report of Independent Registered Public Accounting Firm

Alarion Financial Services, Inc.
Ocala, Florida:

We have reviewed the accompanying condensed consolidated balance sheet of Alarion Financial Services, Inc. and Subsidiary (the "Company") as of September 30, 2008, the related condensed consolidated statements of operations for the three- and nine-month periods ended September 30, 2008 and 2007, and the related condensed consolidated statements of cash flows and changes in stockholders' equity for the nine-month periods ended September 30, 2008 and 2007. These interim condensed financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2007, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 24, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2007, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Tampa, Florida
November 4, 2008

**ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY**

## Item 2. Management's Discussion and Analysis

### General

Alarion Financial Services, Inc. (the "Holding Company") owns 100% of the common stock of Alarion Bank (the "Bank") (collectively the "Company"). The Holding Company's primary activity is the operation of the Bank. The Bank is a state (Florida)-chartered commercial bank. The Company offers a variety of banking and financial services to individual and corporate customers through its six banking offices located in Ocala and Gainesville, Florida.

The Bank's deposits are insured by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation ("FDIC") up to applicable limits. The Holding Company's operations are subject to supervision and regulation of the Federal Reserve Board. The operations of the Bank are subject to the supervision and regulation of the FDIC and the Florida Office of Financial Regulation.

The Bank provides a variety of consumer and commercial banking services to individuals, businesses and industries. The basic services offered by the Bank include: demand interest-bearing and noninterest-bearing accounts, money market deposit accounts, NOW accounts, time deposits, credit cards, cash management, direct deposits, notary services, money orders, night depository, travelers' checks, cashier's checks, domestic collections, savings bonds, bank drafts, automated teller services, drive-in tellers, and banking by mail. In addition, the Bank makes secured and unsecured commercial, consumer, and real estate loans and issues stand-by letters of credit. The Bank provides automated teller machine (ATM) cards and is a member of the Star ATM network, thereby permitting customers to utilize the convenience of larger ATM networks. In addition to the foregoing services, the offices of the Company provide customers with extended banking hours. The Company does not have trust powers and, accordingly, no trust services are provided.

The revenues of the Bank are primarily derived from interest on, and fees received in connection with, real estate and other loans, and from interest and dividends from investment and mortgage-backed securities, and short-term investments. The principal sources of funds for the Bank's lending activities are its deposits and borrowings, repayment of loans, and the sale and maturity of investment securities. The principal expenses of the Bank are the interest paid on deposits, and operating and general administrative expenses.

As is the case with banking institutions generally, the Company's operations are materially and significantly influenced by general economic conditions and by related monetary and fiscal policies of financial institution regulatory agencies, including the Board of Governors of the Federal Reserve System (the "Federal Reserve") and the FDIC. Deposit flows and costs of funds are influenced by interest rates on competing investments and general market rates of interest. Lending activities are affected by the demand for financing of real estate and other types of loans, which in turn is affected by the interest rates at which such financing may be offered and other factors affecting local demand and availability of funds. The Company faces strong competition in the attraction of deposits (its primary source of lendable funds) and in the origination of loans.

**Capital Resources, Commitments and Capital Requirements**

The Bank's principal sources of funds are those generated by the Bank, including net increases in deposits and borrowings, principal and interest payments on loans, and proceeds from maturities of investment securities.

The Bank uses its capital resources principally to fund existing and continuing loan commitments and to purchase investment securities. Off-balance-sheet commitments to extend credit represent legally binding agreements to lend to customers with fixed expiration dates or other termination clauses. Since many commitments are expected to expire without being funded, committed amounts do not necessarily represent future cash requirements.

The following table summarizes the Bank's contractual obligations, including certain on-balance sheet and off-balance sheet obligations, at September 30, 2008 (in thousands):

| Contractual Obligations | Total |
|---|---|
| Time deposit maturities | $142,930 |
| Advances from Federal Home Loan Bank | 21,000 |
| Other borrowings | 5,558 |
| Commitments to extend credit | 10,321 |
| Unused lines of credit | 28,194 |
| Standby letters of credit | 395 |
| Total | $208,398 |

Management believes that the Bank has adequate resources to fund all its commitments, that a majority of all of its existing commitments will be funded within 12 months and, if so desired, that the Bank can adjust the rates and terms on time deposits and other deposit accounts to retain or obtain new deposits in a changing interest rate environment.

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ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY

**Regulatory Capital Requirements**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and percentages of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. If such minimum amounts and percentages are met, the Bank is considered "adequately capitalized." If the actual amounts exceed the requirements of "adequately capitalized," and meet even more stringent minimum standards, they are considered "well capitalized." Management believes as of September 30, 2008, the Bank meets the capital requirements for a "well capitalized" financial institution.

The table below shows the total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios of the Bank at September 30, 2008 and December 31, 2007, and the minimum required amounts and percentages ($ in thousands).

| | Actual | | For Capital Adequacy Purposes | | For Well Capitalized Purposes | |
|---|---|---|---|---|---|---|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| ***As of September 30, 2008:*** | | | | | | |
| Total capital (to Risk-Weighted Assets) | $24,311 | 11.20% | $17,365 | 8.00% | $21,706 | 10.00% |
| Tier I Capital (to Risk-Weighted Assets) | 21,854 | 10.06 | 8,689 | 4.00 | 13,034 | 6.00 |
| Tier I Capital (to Average Assets) | 21,854 | 9.27 | 9,430 | 4.00 | 11,787 | 5.00 |
| ***As of December 31, 2007:*** | | | | | | |
| Total capital (to Risk-Weighted Assets) | 20,844 | 11.52 | 14,475 | 8.00 | 18,094 | 10.00 |
| Tier I Capital (to Risk-Weighted Assets) | 18,798 | 10.39 | 7,237 | 4.00 | 10,855 | 6.00 |
| Tier I Capital (to Average Assets) | 18,798 | 9.20 | 8,173 | 4.00 | 10,216 | 5.00 |

**ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY**

## Results of Operations

The following table shows selected ratios for the periods ended or at the dates indicated:

| | Nine Months Ended September 30, 2008 | Year Ended December 31, 2007 | Nine Months Ended September 30, 2007 |
|---|---|---|---|
| Average equity as a percentage of average assets | 10.59% | 10.54% | 10.84% |
| Total equity to total assets at end of period | 9.83% | 9.96% | 9.82% |
| Return on average assets (1) | 0.01% | .00% | 0.02% |
| Return on average equity (1) | 0.09% | .02% | 0.16% |
| Noninterest expense to average assets (1) | 2.68% | 3.08% | 3.18% |
| Nonperforming loans to total loans at end of period (2) | 0.59% | N/A | N/A |

(1) Annualized for the nine months ended September 30, 2008 and 2007.
(2) Nonperforming loans consist of nonaccrual loans and accruing loans contractually past due ninety days or more.

## Changes in Financial Condition

Total assets increased $50 million or 25%, from $203 million at December 31, 2007 to $254 million at September 30, 2008, primarily as a result of a $33 million increase in net loans and a $21 million increase in cash and cash equivalents, somewhat offset by a decrease in securities of $9 million. Deposits increased $36 million from $164 million at December 31, 2007 to $200 million at September 30, 2008 and Federal Home Loan Bank advances increased $8 million.

ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY

**Net Interest Margin and Interest Rate Spread**

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest and dividend income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average costs; (iii) net interest/dividend income; (iv) interest-rate spread; and (v) net interest margin. Yields and costs were derived by dividing annualized income or expense by the average balance of assets or liabilities, respectively, for the periods shown. The yields and costs include certain fees which are considered to constitute adjustments to yields.

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| | Average Balance | Interest and Dividends | Average Yield/ Rate | Average Balance | Interest and Dividends | Average Yield/ Rate |
| | ($ in thousands) | | | | | |
| Interest-earning assets: | | | | | | |
| Loans | $191,538 | 3,004 | 6.22% | $143,708 | 2,760 | 7.62% |
| Securities | 11,128 | 143 | 5.10 | 18,932 | 276 | 5.78 |
| Other (1) | 15,584 | 83 | 2.11 | 22,087 | 260 | 4.67 |
| Total interest-earning assets | 218,250 | 3,230 | 5.87 | 184,727 | 3,296 | 7.08 |
| Noninterest-earning assets | 18,116 | | | 11,544 | | |
| Total assets | $236,366 | | | $196,271 | | |
| Interest-bearing liabilities: | | | | | | |
| Deposits | 168,339 | 1,623 | 3.82 | 141,473 | 1,719 | 4.82 |
| FHLB advances and other borrowings | 25,308 | 220 | 3.45 | 19,336 | 222 | 4.56 |
| Total interest-bearing liabilities | 193,647 | 1,843 | 3.78 | 160,809 | 1,941 | 4.79 |
| Capitalized interest | | (58) | | | (42) | |
| Net interest expense | | 1,785 | | | 1,899 | |
| Noninterest-bearing deposits | 16,217 | | | 14,022 | | |
| Noninterest-bearing liabilities | 1,542 | | | 1,329 | | |
| Stockholders’ equity | 24,960 | | | 20,111 | | |
| Total liabilities and stockholders’ equity | $236,366 | | | $196,271 | | |
| Net interest income | | $ 1,445 | | | $ 1,397 | |
| Interest-rate spread | | | 2.09% | | | 2.29% |
| Net interest margin (2) | | | 2.63% | | | 3.00% |
| Ratio of interest-earning assets to interest-bearing liabilities | 1.13 | | | 1.15 | | |

(1) Includes interest-earning deposits, federal funds sold, time deposits and Federal Home Loan Bank stock.
(2) Net interest margin is annualized net interest income divided by average interest-earning assets.

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**ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY**

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest and dividend income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average costs; (iii) net interest/dividend income; (iv) interest-rate spread; and (v) net interest margin. Yields and costs were derived by dividing annualized income or expense by the average balance of assets or liabilities, respectively, for the periods shown. The yields and costs include certain fees which are considered to constitute adjustments to yields.

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| | Average Balance | Interest and Dividends | Average Yield/ Rate | Average Balance | Interest and Dividends | Average Yield/ Rate |
| | | | ($ in thousands) | | | |
| Interest-earning assets: | | | | | | |
| Loans | $180,020 | 8,718 | 6.45% | $130,803 | 7,456 | 7.62% |
| Securities | 13,969 | 566 | 5.40 | 15,431 | 675 | 5.85 |
| Other (1) | 14,320 | 260 | 2.42 | 15,029 | 514 | 4.57 |
| Total interest-earning assets | 208,309 | 9,544 | 6.10 | 161,263 | 8,645 | 7.17 |
| Noninterest-earning assets | 16,693 | | | 11,635 | | |
| Total assets | $225,002 | | | $172,898 | | |
| Interest-bearing liabilities: | | | | | | |
| Deposits | 161,629 | 4,969 | 4.10 | 121,953 | 4,340 | 4.76 |
| FHLB advances and other borrowings | 23,048 | 626 | 3.62 | 17,101 | 624 | 4.88 |
| Total interest-bearing liabilities | 184,677 | 5,595 | 4.04 | 139,054 | 4,964 | 4.77 |
| Capitalized interest | | (157) | | | (107) | |
| Net interest expense | | 5,438 | | | 4,857 | |
| Noninterest-bearing deposits | 15,106 | | | 13,910 | | |
| Noninterest-bearing liabilities | 1,380 | | | 1,194 | | |
| Stockholders' equity | 23,839 | | | 18,740 | | |
| Total liabilities and stockholders' equity | $225,002 | | | $172,898 | | |
| Net interest income | | $ 4,106 | | | $ 3,788 | |
| Interest-rate spread | | | 2.06% | | | 2.40% |
| Net interest margin (2) | | | 2.63% | | | 3.14% |
| Ratio of interest-earning assets to interest-bearing liabilities | 1.13 | | | 1.16 | | |

(1) Includes interest-earning deposits, federal funds sold, time deposits and Federal Home Loan Bank stock.
(2) Net interest margin is annualized net interest income divided by average interest-earning assets.

ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY

**Comparison of the Three-Month Periods Ended September 30, 2008 and 2007**

***General Operating Results.*** Net loss for the three-month period ended September 30, 2008 was $23,000, or $(0.01) per basic and diluted share, compared to net earnings of $25,000, or $0.01 per basic share and diluted share, for the comparable period in 2007. The $48,000 decrease in net earnings resulted primarily from an increase in noninterest expense of $94,000, a $35,000 increase in the provision for loan losses, partially offset by a $48,000 increase in net interest income.

***Interest Income.*** Interest income decreased $66,000 to $3.2 million for the three-month period ended September 30, 2008, when compared to the three-month period ended September 30, 2007. The decrease was due to a decrease in the average yield earned on interest-earning assets from 7.08% for the three months ended September 30, 2007 to 5.87% for the three months ended September 30, 2008 partially offset by a $33.5 million increase in average interest-earning assets outstanding for the three months ended September 30, 2008 compared to the 2007 period.

***Interest Expense.*** Interest expense decreased $114,000 from $1.9 million for the three-month period ended September 30, 2007 to $1.8 million for the three-month period ended September 30, 2008. The decrease was primarily due to a decrease in the average cost of interest-bearing liabilities from 4.79% for the three months ended September 30, 2007 to 3.78% for the comparable 2008 period partially offset by an increase of $32.8 million in average interest-bearing liabilities outstanding.

***Provision for Loan Losses.*** The provision for loan losses is charged to operations to increase the total loan loss allowance to a level deemed appropriate by management. The provision is based upon the volume and type of lending conducted by the Company, industry standards, general economic conditions, particularly as they relate to the Company's market area, and other factors related to the collectibility of the Company's loan portfolio. The Company recorded provisions for loan losses for the three-month periods ended September 30, 2008 and 2007 of $170,000 and $135,000, respectively. Management believes that the allowance for loan losses, which was $2.5 million or 1.23% of gross loans at September 30, 2008 is adequate.

***Noninterest Income.*** Noninterest income decreased $3,000 during the 2008 period. The decrease was primarily due to a $19,000 decrease in other noninterest income, partially offset by a $16,000 increase in deposit account fees when compared to the three-month period ended September 30, 2007.

***Noninterest Expense.*** Noninterest expense increased by $94,000 from $1.5 million for the three-month period ended September 30, 2007 to $1.6 million for the three-month period ended September 30, 2008. The increase was primarily due to increases of $23,000 in salaries and employee benefits, $9,000 in occupancy and equipment expense, $22,000 in data processing expense, and $42,000 in other noninterest expense, all related to the overall growth of the Company.

***Income Taxes*** The income tax benefit was $4,000 for the three-month period ended September 30, 2008 and the income tax expense was $32,000 for the corresponding period in 2007.

**ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY**

**Comparison of the Nine-Month Periods Ended September 30, 2008 and 2007**

***General Operating Results.*** Net earnings for the nine-month period ended September 30, 2008 was $16,000, or $0.01 per basic and diluted share, compared to net earnings of $23,000, or $0.01 per basic share and diluted share, for the comparable period in 2007. The $7,000 decrease in net earnings resulted primarily from an increase in noninterest expense of $390,000, partially offset by a $318,000 increase in net interest income, a $64,000 decrease in provision for loan losses and a $17,000 increase in noninterest income.

***Interest Income.*** Interest income increased $899,000 to $9.5 million for the nine-month period ended September 30, 2008, when compared to the nine-month period ended September 30, 2007. The increase was due to a $47 million increase in average interest earning assets outstanding for the nine months ended September 30, 2008 compared to the 2007 period, partially offset by a decrease in the average yield earned on interest earning assets from 7.17% for the nine months ended September 30, 2008 to 6.10% for the nine months ended September 30, 2008.

***Interest Expense.*** Interest expense increased $581,000 from $4.9 million for the nine-month period ended September 30, 2007 to $5.4 million for the nine-month period ended September 30, 2008. The increase was primarily due to an increase of $45.6 million in average interest-bearing liabilities outstanding partially offset by a decrease in the average cost of interest-bearing liabilities from 4.77% for the nine months ended September 30, 2007 to 4.04% for the comparable 2008 period.

***Provision for Loan Losses.*** The provision for loan losses is charged to operations to increase the total loan loss allowance to a level deemed appropriate by management. The provision is based upon the volume and type of lending conducted by the Company, industry standards, general economic conditions, particularly as they relate to the Company's market area, and other factors related to the collectibility of the Company's loan portfolio. The Company recorded provisions for loan losses for the nine-month periods ended September 30, 2008 and 2007 of $411,000 and $475,000, respectively. Management believes that the allowance for loan losses, which was $2.5 million or 1.23% of gross loans at September 30, 2008 is adequate.

***Noninterest Income.*** Noninterest income increased $17,000 during the 2008 period. The increase was primarily due to a $210,000 increase in loan brokerage fees and a $72,000 increase in deposit account fees when compared to the nine-month period ended September 30, 2007, somewhat offset by a $197,000 decrease in net gain on sales of loans held for sale.

***Noninterest Expense.*** Noninterest expense increased by $390,000 from $4.1 million for the nine-month period ended September 30, 2007 to $4.5 million for the nine-month period ended September 30, 2008. The increase was primarily due to increases of $104,000 in salaries and employee benefits, $36,000 in occupancy and equipment expense, $79,000 in data processing expense, and $167,000 in other noninterest expense, all related to the overall growth of the Company.

***Income Taxes*** The income tax expense was $41,000 for the nine-month period ended September 30, 2008. The income tax expense was $25,000 for the corresponding period in 2007.

**ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY**

**Item 4T. Controls and Procedures**

a. Evaluation of disclosure controls and procedures. The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the Principal Executive and Principal Financial officers of the Company concluded that the Company's disclosure controls and procedures were adequate.

b. Changes in internal controls. The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the Principal Executive and Principal Financial officers.

## Part II - OTHER INFORMATION

**Item 1. Legal Proceedings**

There are no material pending legal proceedings to which Alarion Financial Services, Inc. or its subsidiary is a party or to which any of their property is subject.

**Item 1.A. Risk Factors**

Not applicable

**Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities**

Not applicable

**Item 3. Defaults upon Senior Securities**

Not applicable

**Item 4. Submission of Matters to a Vote of Security Holders**

Not applicable

**Item 5. Other Information**

Not applicable

ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY

**Item 6. Exhibits**

Exhibits marked with an (a) were filed in the Holding Company's Annual Report on Form 10-KSB, filed with the Securities and Exchange Commission on March 15, 2006. The Exhibits marked with a (b) were filed in the Holding Company's Form 10-Q, filed with the Securities and Exchange Commission on May 15, 2008. Exhibit (c) was filed in the Annual Report on Form 10-KSB/A filed with the Commission on July 17, 2006.

| Exhibit No. | | Description of Exhibit |
|---|---|---|
| 3.1 | (a) | Articles of Incorporation |
| 3.2 | (a) | Bylaws |
| 4.1 | (a) | Specimen Common Stock Certificate |
| 4.3 | (c) | 2005 Stock Plan |
| 10.1 | (a) | Employment Agreement with Jon M. Kurtz |
| 10.2 | (a) | Lease for Main Office |
| 10.3 | (b) | Employment Agreement with Walter R. Czuryla |
| 10.4 | (b) | Employment Agreement with Robert L. Page |
| 21.1 | (a) | Schedule of Subsidiaries |
| 31.1 | | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - President and Principal Executive Officer |
| 31.2 | | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Principal Financial and Accounting Officer |
| 32.1 | | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - President and Principal Executive Officer |
| 32.2 | | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Principal Financial and Accounting Officer |

**ALARION FINANCIAL SERVICES, INC. AND SUBSIDIARY**

**SIGNATURES**

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 hereunto duly authorized.

Date: November 12, 2008

Alarion Financial Services, Inc.

| | |
|---|---|
| By: | /s/ Jon M. Kurtz |
| Name: | Jon M. Kurtz, President and Principal Executive Officer |
| By: | /s/ Matthew Ivers |
| Name: | Matthew Ivers, Senior Vice President and Principal Financial and Accounting Officer |

EX-31.1 2 dex311.htm SECTION 302 CEO CERTIFICATION

**Exhibit 31.1**

CERTIFICATION

I, Jon M. Kurtz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alarion Financial Services, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2008

By: /s/ Jon M. Kurtz
Jon M. Kurtz, President and Principal Executive Officer

A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 31.2**

CERTIFICATION

I, Matthew Ivers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alarion Financial Services, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2008

By: /s/ Matthew Ivers

Matthew Ivers, Senior Vice President and Principal Financial and Accounting Officer

A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 32.1**

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADDED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Alarion Financial Services, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2008 as filed with the Securities and Exchange Commission (the “Report”), I, Jon M. Kurtz, President and Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C.§ 1350, as added by § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

Date: November 12, 2008

By: /s/ Jon M. Kurtz
Jon M. Kurtz, President and Principal Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EX-32.2 5 dex322.htm SECTION 906 CFO CERTIFICATION

**Exhibit 32.2**

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADDED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Alarion Financial Services, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2008 as filed with the Securities and Exchange Commission (the "Report"), I, Matthew Ivers, Senior Vice President and Principal Financial and Accounting Officer of the Company, certify, pursuant to 18 U.S.C.§ 1350, as added by § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the report.

Date: November 12, 2008

By: /s/ Matthew Ivers
Matthew Ivers, Senior Vice President and Principal Financial and Accounting Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.