TAYLOR CALVIN B BANKSHARES INC
Form 10-Q
May 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007

Commission File Number: 000-50047

CALVIN B. TAYLOR BANKSHARES, INC.

I.R.S. Employer Identification No.: 52-1948274
State of incorporation: Maryland

Address of principal executive offices: 24 North Main Street, Berlin, Maryland 21811
Issuer's telephone number: (410) 641-1700

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES _X_ NO ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer ____ Accelerated filer _X_ Non-accelerated filer ____

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: The registrant

had 3,140,722 shares of common stock ($1.00 par) outstanding as of April 30, 2007.

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Form 10-Q
Index

Calvin B. Taylor Bankshares, Inc. and Subsidiary

Part I - Financial Information

Consolidated Balance Sheets

	(unaudited) March 31, 2007	December 31, 2006
Assets		
Cash and due from banks	$ 17,844,984	$ 21,138,799
Federal funds sold	38,384,938	24,616,735
Interest-bearing deposits	2,052,846	2,055,689
Investment securities available for sale	11,185,214	18,854,192
Investment securities held to maturity (approximate fair value of $44,326,300 and $56,031,190)	44,416,076	56,271,631
Loans, less allowance for loan losses of $2,180,894 and $2,175,418	238,523,197	231,251,783
Premises and equipment	6,560,385	6,562,837
Accrued interest receivable	1,426,508	1,692,622
Computer software	163,361	175,383
Bank owned life insurance	4,577,248	4,530,259
Other assets	165,630	382,236
	$ 365,300,387	$ 367,532,166
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	$ 76,150,400	$ 79,625,853
Interest-bearing	211,847,569	210,698,907
	287,997,969	290,324,760
Securities sold under agreements to repurchase	2,925,723	5,624,048
Note payable	115,202	120,737
Accrued interest payable	399,628	340,155
Deferred income taxes	841,996	719,714
Income taxes payable	924,945	-
Other liabilities	87,069	233,196
	293,292,532	297,362,610
Stockholders' equity		
Common stock, par value $1 per share authorized 10,000,000 shares, issued and outstanding 3,145,322 shares at March 31, 2007, and 3,149,356 shares at December 31, 2006	3,145,322	3,149,356
Additional paid-in capital	13,976,542	14,117,732
Retained earnings	52,843,357	51,053,985
	69,965,221	68,321,073
Accumulated other comprehensive income	2,042,634	1,848,483
	72,007,855	70,169,556
	$ 365,300,387	$ 367,532,166

See accompanying Notes to Consolidated Financial Statements

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Consolidated Statements of Income
(unaudited)

	For the three months ended March 31, 2007	2006
Interest and dividend revenue		
Loans, including fees	$ 4,152,898	$ 3,714,599
U.S. Treasury and government agency securities	588,571	731,685
State and municipal securities	22,152	47,959
Federal funds sold	392,429	137,488
Interest-bearing deposits	22,739	17,233
Equity securities	27,777	24,993
Total interest and dividend revenue	5,206,566	4,673,957
Interest expense		
Deposits	1,022,247	639,642
Borrowings	8,697	11,048
Total interest expense	1,030,944	650,690
Net interest income	4,175,622	4,023,267
Provision for loan losses	-	-
Net interest income after provision for loan losses	4,175,622	4,023,267
Noninterest revenue		
Service charges on deposit accounts	258,717	282,220
ATM and debit card revenue	107,699	95,046
Miscellaneous revenue	99,161	98,360
Total noninterest revenue	465,577	475,626
Noninterest expenses		
Salaries	846,161	835,017
Employee benefits	209,494	212,141
Occupancy	180,228	180,479
Furniture and equipment	118,950	109,158
Other operating	475,394	432,697
Total noninterest expenses	1,830,227	1,769,492
Income before income taxes	2,810,972	2,729,401
Income taxes	1,021,600	966,000
Net income	$ 1,789,372	$ 1,763,401
Earnings per common share - basic and diluted	$ 0.57	$ 0.55

See accompanying Notes to Consolidated Financial Statements

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Consolidated Statements of Cash Flows
(unaudited)

	For the three months ended March 31, 2007	2006
Cash flows from operating activities		
Interest and dividends received	$ 5,388,909	$ 4,507,986
Fees and commissions received	417,422	421,970
Interest paid	(971,472)	(592,035)
Cash paid to suppliers and employees	(1,678,302)	(1,682,582)
Income taxes paid	(42,063)	(1,054,938)
	3,114,494	1,600,401
Cash flows from investing activities		
Certificates of deposit purchased, net of maturities	-	(1,257)
Proceeds from maturities of investments available for sale	12,000,000	-
Purchase of investments available for sale	-	(100,000)
Proceeds from maturities of investments held to maturity	11,860,000	14,305,000
Purchase of investments held to maturity	(3,935,368)	-
Loans made, net of principal collected	(7,271,414)	(15,433,121)
Proceeds from sale of equipment	1,409	-
Purchases of premises, equipment, and computer software	(121,701)	(60,709)
	12,532,926	(1,290,087)
Cash flows from financing activities		
Net increase (decrease) in		
Time deposits	6,856,182	4,237,151
Other deposits	(9,182,972)	(14,675,282)
Securities sold under agreements to repurchase	(2,698,325)	(938,218)
Payments on note payable	(5,536)	(5,214)
Common shares repurchased	(145,224)	(55,512)
Dividends paid	-	(4,462,578)
	(5,175,875)	(15,899,653)
Net increase (decrease) in cash and cash equivalents	10,471,545	(15,589,339)
Cash and cash equivalents at beginning of period	45,771,812	50,425,595
Cash and cash equivalents at end of period	$ 56,243,357	$ 34,836,256

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Consolidated Statements of Cash Flows
(unaudited)

	For the three months ended March 31, 2007	2006
Reconciliation of net income to net cash provided by operating activities		
Net income	$ 1,789,372	$ 1,763,401
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	136,166	149,515
Amortization of premiums and accretion of discount, net	(83,784)	(38,630)
(Gain) loss on disposition of assets	(1,400)	-
Decrease (increase) in		
Accrued interest receivable	266,114	(127,365)
Cash surrender value of bank owned life insurance	(46,989)	(38,314)
Other assets	216,606	60,071
Increase (decrease) in		
Accrued interest payable	59,473	58,655
Accrued income taxes	924,945	(97,142)
Other liabilities	(146,009)	(129,790)
	$ 3,114,494	$ 1,600,401
Composition of cash and cash equivalents		
Cash and due from banks	$ 17,844,984	$ 19,865,647
Federal funds sold	38,384,938	14,885,421
Interest-bearing deposits, except for time deposits	13,435	85,188
	$ 56,243,357	$ 34,836,256

See accompanying Notes to Consolidated Financial Statements

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements (unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of financial position and results of operations have been made. These adjustments are of a normal recurring nature. Results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. For further information, refer to the audited consolidated financial statements and related footnotes included in the Company's Form 10-K for the year ended December 31, 2006.

Consolidation has resulted in the elimination of all significant intercompany accounts and transactions.

Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and interest-bearing deposits except for time deposits. Federal funds are purchased and sold for one-day periods.

Per share data

Earnings per common share are determined by dividing net income by the weighted average number of common shares outstanding for the period, as follows:

	2007	2006
Three months ended March 31	3,145,715	3,186,656

2. Comprehensive Income

Comprehensive income consists of:

	For the three months ended March 31,	
	2007	2006
Net income	$ 1,789,372	$ 1,763,401
Unrealized gain on investment securities available for sale, net of income taxes	194,151	64,936
Comprehensive income	$ 1,983,523	$ 1,828,337

3. Loan commitments

Loan commitments are agreements to lend to customers as long as there is no violation of any conditions of the contracts. As of March 31, outstanding loan commitments and letters of credit consist of:

	2007	2006
Loan commitments	$ 31,339,927	$ 42,553,092
Standby letters of credit	$ 1,782,252	$ 1,112,769

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements (unaudited) (continued)

4. New accounting standards

The following accounting pronouncements have been approved by the Financial Accounting Standards Board and would apply to the Company if the Company or the Bank entered into an applicable activity.

FASB Statement No. 157, *Fair Value Measurements* defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 will be applied prospectively and is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management does not expect SFAS No. 157 to have a material impact on the Company's consolidated financial statements.

FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* includes the amendment of FASB Statement No. 115. This Statement permits companies to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements.* Management does not expect SFAS No. 159 to have a material impact on the Company's consolidated financial statements.

In September 2006, the Financial Accounting Standards Board (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 Arrangement* determining whether the postretirement benefit associated with an endorsement split-dollar life insurance arrangement is effectively settled in accordance with FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (or Opinion 12, *Omnibus Opinion*-1967, if the arrangement does not constitute a plan). The Task Force concluded that for a split-dollar life insurance arrangement, an employer should recognize a liability for future benefits in accordance with Statement 106 or Opinion 12 (depending on whether a substantive plan is deemed to exist) based on the substantive agreement with the employee. Management does not expect the adoption of EITF Issue No. 06-4, which is effective for fiscal years beginning after December 15, 2007, to have a material impact on the Company's consolidated financial statements.

The accounting policies adopted by management are consistent with accounting principles generally accepted in the United States of America and are consistent with those followed by peer Banks.

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Part I. Financial Information

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

This Report contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and the Securities Exchange Act of 1934. These statements appear in a number of places in this Report and include all statements regarding the intent, belief or current expectations of the Company, its directors, or its officers with respect to, among other things: (i) the Company's financing plans; (ii) trends affecting the Company's financial condition or results of operations; (iii) the Company's growth strategy and operating strategy; and (iv) the declaration and payment of dividends. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors discussed herein and those factors discussed in detail in the Company's filings with the Securities and Exchange Commission.

The following discussion of the financial condition and results of operations of the Registrant (the Company) should be read in conjunction with the Company's financial statements and related notes and other statistical information included elsewhere herein.

General

Calvin B. Taylor Bankshares, Inc. (Company) was incorporated as a Maryland corporation on October 31, 1995. The Company owns all of the stock of Calvin B. Taylor Banking Company (Bank), a commercial bank that was established in 1890 and incorporated under the laws of the State of Maryland on December 17, 1907. The Bank operates nine banking offices in Worcester County, Maryland and one banking office in Ocean View, Delaware. The Bank's administrative office is located in Berlin, Maryland. The Bank is engaged in a general commercial and retail banking business serving individuals, businesses, and governmental units in Worcester County, Maryland, Ocean View, Delaware, and neighboring counties.

The Company currently engages in no business other than owning and managing the Bank.

Critical Accounting Policies

The Company's financial condition and results of operations are sensitive to accounting measurements and estimates of inherently uncertain matters. When applying accounting policies in areas that are subjective in nature, management uses its best judgment to arrive at the carrying value of certain assets. One of the most critical accounting policies applied is related to the valuation of the loan portfolio. Management estimates the appropriate allowance for loan losses, including the timing of loan charge-offs.

The allowance for loan losses represents a reserve for potential losses in the loan portfolio. It is one of the most difficult and subjective judgments. The adequacy of the allowance for loan losses is evaluated quarterly based on a review of the loan portfolio, with particular emphasis on non-accruing, past due, and other loans that management believes require attention. The determination of the reserve level relies on management's judgment about factors affecting loan quality, current trends in delinquencies and charge-offs, and anticipated changes in the composition and size of the portfolio, as well as an analysis of historical loan loss ratios. Management also considers external factors such as changes in the interest rate environment, the view of the Bank's regulators, economic conditions in the Bank's service area and beyond, and legislation that affects the banking industry.

Financial Condition

Total assets of the Company decreased $2.2 million from December 31, 2006 to March 31, 2007. Combined deposits and customer repurchase agreements decreased $5.0 million during the same period. Average deposits for the first quarter of 2007 are $9.3 million less than they were in the last quarter of 2006. Historically, during the first quarter of the year, the Bank experiences a decline in deposits since business customers are using their deposits to meet cash flow needs related to the local summer tourism industry. Generally, this situation reverses late in the second quarter of the year as the Bank receives deposits from seasonal business customers, summer residents and tourists. Seasonal deposit volume peaks in the third quarter and begins to fall off in the last quarter of each year.

Average total assets and average total deposits decreased $11.4 million and $11.8 million, respectively, from first quarter 2006 to first quarter 2007. Management carefully monitors deposit reductions and the resulting effect on liquidity. Deposit decreases have been funded by reductions in the investment portfolio.

During the first three months of 2007, the Bank's gross loan portfolio increased $7.3 million. Funding for these loans was provided by reduction of the investment portfolio. As loans earn at higher average rates than investments, this shift has a positive effect on earnings. The increase in loans does not negatively impact the Company's ability to meet liquidity demands.

Based on its quarterly review of the consolidated loan portfolio, the Company determined that an allowance of $2.2 million was adequate as of March 31, 2007. Historically, the Company has low levels of loan delinquencies and charge-offs. Loans delinquent ninety days or more and still accruing interest totaled $155,117 or .06% of the portfolio at March 31, 2007, and $239,620 or .10% of the portfolio at December 31, 2006. There were no nonaccrual loans as of March 31, 2007 or December 31, 2006.

The Company makes loans to customers located primarily in the Delmarva region. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region.

<u>Liquidity</u>

The Company's major sources of liquidity are loan repayments, maturities of short-term investments including federal funds sold, and increases in core deposits. Throughout the first quarter of the year, when the Bank typically experiences a decline in deposits, federal funds sold and investment securities are primary sources of liquidity. During the second quarter of the year, additional sources of liquidity become more readily available as business borrowers start repaying loans, and the Bank receives seasonal deposits. Throughout the second and third quarters the Bank maintains a high liquidity level. Funds from seasonal deposits are generally invested in short-term U.S. Treasury Bills and overnight federal funds.

The Company has available lines of credit, including overnight federal funds, reverse repurchase agreements and letters of credit, totaling $21,000,000 as of March 31, 2007.

Average liquid assets (cash and amounts due from banks, interest-bearing deposits in other banks, federal funds sold, and investment securities) compared to average deposits and retail repurchase agreements were 38.08% for the first quarter of 2007 compared to 47.36% for the first quarter of 2006. Contributing to the year-to-year decrease is growth of the loan portfolio which has been funded by decreased investments in debt securities.

<u>Results of Operations</u>

Net income for the three months ended March 31, 2007, was $1,789,372 or $.57 per share, compared to $1,763,401 or $.55 per share for the first quarter of 2006. This represents an increase of $25,971 or 1.47% from the prior year. The key components of net income are discussed in the following paragraphs.

In the first three months of 2007 compared to 2006, total interest and dividend revenues increased $532,609 (11.40%), while total interest expense increased $380,254 (58.44%). The result is an increase in net interest income of $152,355 (3.79%). The revenue increase is attributable to a shift in earning assets from investment securities to higher yielding loans, while the expense increase is due to the movement of deposits from noninterest-bearing and lower rate interest-bearing deposits to higher rate time deposits.

The tax-equivalent quarterly yield on interest-earning assets increased by 82 basis points from 5.65% for first quarter 2006 to 6.47% in 2007. The quarterly yield on interest-bearing liabilities increased by 77 basis points from 1.18% in 2006 to 1.95% in 2007. In combination, these shifts contribute to an increase in net margin on interest-earning assets of 33 basis points.

The following table presents information including average balances of interest-earning assets and interest-bearing liabilities, the amount of related interest income and interest expense, and the resulting yields by category of interest-earning asset and interest-bearing liability. In this table, dividends and interest on tax-exempt securities and loans are reported on a fully taxable equivalent basis, which is a non-GAAP measure as defined in SEC Regulation G and Item 10 of SEC Regulation S-K. Management believes that these measures provide better yield comparability as a tool for managing net interest income.

Average Balances, Interest, and Yields

	For the quarter ended March 31, 2007			For the quarter ended March 31, 2006		
	Average balance	Interest	Yield	Average balance	Interest	Yield
Assets						
Federal funds sold	$30,524,693	$392,429	5.21%	$11,961,214	$137,488	4.66%
Interest-bearing deposits	2,072,184	22,739	4.45%	2,210,639	17,233	3.16%
Investment securities	61,817,313	686,233	4.50%	111,527,103	868,428	3.16%
Loans, net of allowance	236,296,971	4,176,566	7.17%	214,622,776	3,721,059	7.03%
Total interest-earning assets	330,711,161	$5,277,967	6.47%	340,321,732	$4,744,208	5.65%
Noninterest-bearing cash	15,863,635			17,665,735		
Other assets	13,381,936			13,335,106		
Total assets	$359,956,732			$371,322,573		
Liabilities and Stockholders' Equity						
Interest-bearing deposits						
NOW	$52,098,830	$47,510	0.37%	$60,510,515	$28,961	0.19%
Money market	35,770,307	82,895	0.94%	43,825,976	78,852	0.73%
Savings	45,295,465	82,635	0.74%	49,381,546	59,751	0.49%
Other time	77,186,232	809,207	4.25%	64,635,447	472,078	2.96%
Total interest-bearing deposits	210,350,834	1,022,247	1.97%	218,353,484	639,642	1.19%
Securities sold under agreements to repurchase & federal funds purchased	4,077,579	6,914	0.69%	5,384,692	8,943	0.67%
Borrowed funds	117,136	1,783	6.17%	138,638	2,105	6.16%
Total interest-bearing liabilities	214,545,549	1,030,944	1.95%	223,876,814	650,690	1.18%
Noninterest-bearing deposits	75,162,028			79,003,525		
	289,707,577	$1,030,944	1.44%	302,880,339	$650,690	0.87%
Other liabilities	885,547			2,596,084		
Stockholders' equity	69,363,608			65,846,150		
Total liabilities and stockholders' equity	$359,956,732			$371,322,573		
Net interest spread			4.52%			4.47%
Net interest income		$4,247,023			$4,093,518	
Net margin on interest-earning assets			5.21%			4.88%
Tax equivalent adjustment in:						
Investment income		$47,733			$63,791	

Loan income	$23,668	$6,460

The Company's net interest income is one of the most important factors in evaluating its financial performance. Management uses interest sensitivity analysis to determine the effect of rate changes. Net interest income is projected over a one-year period to determine the effect of an increase or decrease in the prime rate of 100 basis points. If prime were to decrease one hundred basis points, and all assets and liabilities maturing within that period were fully adjusted for the rate change, the Company would experience a decrease of approximately 5.6% in net interest income. Conversely, if prime were to increase one hundred basis points, and all assets and liabilities maturing within that period were fully adjusted for the rate change, the Company would experience a corresponding increase in net interest income. The sensitivity analysis does not consider the likelihood of these rate changes nor whether management's reaction to this rate change would be to reprice its loans or deposits.

No provision for loan losses was charged to expense during the first quarter of 2007 or 2006. Net loan charged-off (recovered) were ($5,476) during the first three months of 2007 versus ($69) in the same period in 2006.

Noninterest revenue for the first quarter of 2007 is $10,049 less than last year. Increased ATM and VISA debit card revenue helped to offset declines in deposit account service charges.

Noninterest expense for the first quarter of 2007 is $60,735, or 3.43%, more than last year, of which $42,697 falls in the category of "other operating" expense. Most of the notable variances in this category are due to the timing of routine period expenses that are recognized on a cash basis.

The Bank employed 95 full time equivalent employees as of March 31, 2007. The Bank hires seasonal employees during the summer. The Company has no employees other than those hired by the Bank.

Income taxes are $55,600 higher than the same quarter last year, on a pre-tax income increase of $81,571. The Company's effective tax rate has increased from 35.4% for the first quarter of 2006 to 36.3% for the first quarter of 2007. This results from the decrease of tax preferenced revenues in actual dollars and as a percentage of total revenues. Additionally, the Company's marginal federal statutory rate has increased due to annualized taxable income exceeding $10 million.

Plans of Operation

The Bank offers a full range of deposit services including checking, NOW, Money Market, and savings accounts, and time deposits including certificates of deposit. The transaction accounts and time certificates are tailored to the Bank's principal market areas at rates competitive to those offered in the area. In addition, the Bank offers certain retirement account services, such as Individual Retirements Accounts ("IRAs"). All deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") up to the maximum amount allowed by law (generally, $100,000 for non-IRA accounts per depositor and $250,000 for IRAs per depositor, subject to aggregation rules). The Bank solicits these accounts from individuals, businesses, associations and organizations, and governmental authorities.

The Company, through the Bank, offers a full range of short- to medium-term commercial and personal loans. Commercial loans include both secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition of real estate and improvements), and purchase of equipment and machinery. Consumer loans include secured and unsecured loans for financing automobiles, home improvements, education, and personal investments. The Company originates commercial and residential mortgage loans and real estate construction and acquisition loans. These lending activities are subject to a variety of lending limits imposed by state and federal law. The Bank may not make any loans to any director or executive officer (except for commercial loans to directors who are not officers or employees) unless the Board of Directors of the Bank approves the loans. The Board of Directors reviews such loans every six months.

Other bank services include cash management services, 24-hour ATM's, debit cards, safe deposit boxes, travelers' checks, direct deposit of payroll and social security, and automatic drafts for various accounts. The Bank offers bank-by-phone and Internet banking services, including electronic bill-payment, to both commercial and retail customers. The Bank also offers non-deposit products including retail repurchase agreements and discount brokerage services through a correspondent bank.

Capital Resources and Adequacy

Total stockholders' equity increased $1,838,299 from December 31, 2006 to March 31, 2007. This increase is attributable to comprehensive income recorded during the period, as detailed in Note 2 of the Notes to Financial Statements, reduced by $145,224 used to repurchase and retire 4,034 shares of common stock. Stock repurchases were at a price of $36.00 per share.

Under the capital guidelines of the Federal Reserve Board and the FDIC, the Company and Bank are currently required to maintain a minimum risk-based total capital ratio of 8%, with at least 4% being Tier 1 capital. Tier 1 capital consists of stockholders' equity less accumulated other comprehensive income. In addition, the Company and the Bank must maintain a minimum Tier 1 leverage ratio (Tier 1 capital to total assets) of at least 4%, but this minimum ratio is increased by 100 to 200 basis points for other than the highest-rated institutions.

Tier one risk-based capital ratios of the Company as of March 31, 2007 and December 31, 2006 were 31.7% and 32.2%, respectively. Both are substantially in excess of regulatory minimum requirements.

Website Access to SEC Reports

The Bank maintains an Internet website at

www.taylorbank.com. The Company's periodic SEC reports, including annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, are accessible through this website. Access to these filings is free of charge. The reports are available as soon as practicable after they are filed electronically with the SEC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's principal market risk exposure relates to interest rates on interest-earning assets and interest-bearing liabilities. Unlike most industrial companies, the assets and liabilities of financial institutions such as the Company and the Bank are primarily monetary in nature. Therefore, interest rates have a more significant effect on the Company's performance than do the effects of changes in the general rate of inflation and change in prices. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. As discussed previously, management monitors and seeks to manage the relationships between interest sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

At March 31, 2007, the Company's interest rate sensitivity, as measured by gap analysis, showed the Company was asset-sensitive with a one-year cumulative gap of 29.63%, as a percentage of interest-earning assets. Generally asset-sensitivity indicates that assets reprice more quickly than liabilities and in a rising rate environment net interest income typically increases. Conversely, if interest rates decrease, net interest income would decline. The Bank has classified its demand mortgage and commercial loans as immediately repriceable. Unlike loans tied to prime, these rates do not necessarily change as prime changes since the decision to call the loans and change the rates rests with management.

Item 4. Controls and procedures

Disclosure controls and procedures are designed and maintained by the Company to ensure that information required to be disclosed in the Company's publicly filed reports is recorded, processed, summarized and reported in a timely manner. Such information must be available to management, including the Chief Executive Officer (CEO) and Treasurer, to allow them to make timely decisions about required disclosures. Even a well-designed and maintained control system can provide only reasonable, not absolute, assurance that its objectives are achieved. Inherent limitations in any system of controls include flawed judgment, errors, omissions, or intentional circumvention of controls.

The Company's management, including the CEO and Treasurer, performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2007. Based on that evaluation, the Company's management, including the CEO and Treasurer, has concluded that the Company's disclosure controls and procedures are effective. The projection of an evaluation of controls to future periods is subject to the risk that procedures may become inadequate due to changes in conditions including the degree of compliance with procedures.

Changes in Internal Controls

During the quarter ended on the date of this report, there were no significant changes in the Company's internal control over financial reporting that have had or are reasonably likely to have a material affect on the Company's internal control over financial reporting. As of March 31, 2007, the Company's management, including the CEO and Treasurer, has concluded that the Company's internal controls over financial reporting are effective.

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Part II. Other Information

Item 1 Legal Proceedings
Not applicable

Item 1A Risk Factors

The Company and the Bank are subject to various types of risk during the normal conduct of business. There has been no material increase in any level of risk incurred by the Company or the Bank during the quarter covered by this report. Following are descriptions of the significant categories of risk most relevant to the Company.

Credit risk is the risk to the Company's earnings or capital from the potential of an obligor to fulfill its contractual commitment to the Company. Credit risk is most closely associated with the Company's lending activities.
Interest rate risk is the risk to earnings or capital from the potential movement in interest rates. It is the sensitivity of the Company's future earnings to interest rate changes.
Liquidity risk is the risk to earnings or capital from the Company's inability to meet its obligations when they come due without incurring unacceptable losses or costs.
Market risk is the risk to earnings or capital from changes in the value of portfolios of financial instruments. For the Company, market risk is the risk of a decline in market value of its securities portfolio.
Transaction risk is the risk to earnings or capital arising from problems with service or product delivery. Transaction risk is the risk of a failure in the Company's operating processes, such as automation, employee integrity, or internal controls.
Compliance risk is the risk to earnings or capital from noncompliance with laws, rules, and regulations. Compliance risk is one of the greatest risks the Company faces.
Reputation risk is the risk to earnings or capital from negative public opinion. Customer and public relations are critical to the Company's success. Accordingly, the Company's reputation is extremely important and anything that would impair that reputation is a significant risk.
Strategic risk is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table presents information about the Company's repurchase of its equity securities during the calendar quarter ended on the date of this Form 10-Q.

Period	(a) Total Number of Shares	(b) Average Price Paid per Share	(c) Total number of Shares Puchased as Part of a Publicly Announced Program	(d) Maximum number of Shares that may yet be Purchased Under the Program
January	3,500	N/A	3,500	258,226
February	367	36.00	367	257,859
March	167	36.00		257,692

			167
Totals	4,034	36.00	4,034

The Company publicly announced on August 14, 2003, that it would repurchase up to 10% of its outstanding equity stock at that time, which equated to a total of 324,000 common shares available for repurchase. As of January 1, 2005, this plan was renewed, by public announcement, making up to 10% of the Company's outstanding equity stock at that time, which equated to a total of 320,848 common shares, available for repurchase. There is no expiration date for this program. No other stock repurchase plan or program existed or exists simultaneously, nor has any other plan or program expired during the period covered by this table. Common shares repurchased under this plan are retired.

Item 3 Defaults Upon Senior Securities

Not applicable

Item 4 Submission of Matters to a Vote of Security Holders

Not applicable

Item 5 Other information

Not applicable

Item 6 Exhibits and Reports on Form 8-K

a) Exhibits

31. Certifications of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32. Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

b) Reports on Form 8-K

There were no reports on Form 8-K filed during the quarter covered by this report.

Exhibit 31.1
Certification - Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Raymond M. Thompson, certify that:

I have reviewed this quarterly report on Form 10-Q of Calvin B. Taylor Bankshares, Inc.;

1. 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;

2. 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;

3. The registrant's other certifying officers 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we 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 subsidiary, 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 most recent fiscal quarter that has or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

4. The registrant's other certifying officers 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 function):

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.

Calvin B. Taylor Bankshares, Inc.

Date: May 4, 2007 By: /s/ Raymond M. Thompson

Chief Executive Officer

Exhibit 31.2
Certification - Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jennifer G. Hawkins, certify that:

I have reviewed this quarterly report on Form 10-Q of Calvin B. Taylor Bankshares, Inc.;

1. 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;

2. 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;

3. The registrant's other certifying officers 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we 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 subsidiary, 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 most recent fiscal quarter that has or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

4. The registrant's other certifying officers 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 function):

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.

Calvin B. Taylor Bankshares, Inc.

Date: May 4, 2007 By: /s/ Jennifer G. Hawkins

Treasurer (Principal Financial Officer)

Exhibit 32
Certification - Pursuant to 18 U.S.C. 1350
(Section 906 of the Sarbanes-Oxley Act of 2002)

We, the undersigned, certify that to the best of our knowledge, based upon a review of the Quarterly Report on Form 10-Q for the period ended March 31, 2007 of the Registrant (the "Report"):

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Calvin B. Taylor Bankshares, Inc.

Date: May 4, 2007 By: /s/ Raymond M. Thompson

Chief Executive Officer

Date: May 4, 2007 By: /s/ Jennifer G. Hawkins

Treasurer (Principal Financial Officer)

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 thereunto duly authorized.

Calvin B. Taylor Bankshares, Inc.

Date: May 4, 2007	By:	/s/ Raymond M. Thompson
		Chief Executive Officer
Date: May 4, 2007	By:	/s/ Jennifer G. Hawkins
		Treasurer (Principal Financial Officer)