TAYLOR CALVIN B BANKSHARES INC
Form 10-Q
November 06, 2006

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 SEPTEMBER 30, 2006

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 3,156,683 shares of common stock ($1.00 par) outstanding as of October 31, 2006.

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) September 30, 2006	December 31, 2005
Assets		
Cash and due from banks	$ 19,188,701	$ 24,069,790
Federal funds sold	34,737,015	26,296,780
Interest-bearing deposits	2,142,396	2,192,731
Investment securities available for sale	20,773,427	6,505,278
Investment securities held to maturity (approximate fair value of $70,616,599 and $111,306,528)	70,997,167	112,579,162
Loans, less allowance for loan losses of $2,190,778 and $2,190,709	228,845,965	204,441,957
Premises and equipment	6,583,350	6,664,051
Accrued interest receivable	1,596,530	1,504,945
Computer software	189,020	228,014
Bank owned life insurance	4,488,032	4,367,744
Other assets	322,407	224,172
	$ 389,864,010	$ 389,074,624
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	$ 87,253,780	$ 88,236,133
Interest-bearing	223,614,307	222,621,474
	310,868,087	310,857,607
Securities sold under agreements to repurchase	6,088,972	6,149,263
Dividend payable	-	4,462,578
Accrued interest payable	336,479	177,357
Note payable	126,191	142,069
Deferred income taxes	796,283	635,336
Other liabilities	621,074	332,030
	318,837,086	322,756,240
Stockholders' equity		
Common stock, par value $1 per share authorized 10,000,000 shares, issued and outstanding 3,156,683 shares at September 30,2006, and 3,187,556 shares at December 31, 2005	3,156,683	3,187,556

Additional paid-in capital	14,374,177	15,454,735
Retained earnings	51,590,238	46,021,128
	69,121,098	64,663,419
Accumulated other comprehensive income	1,905,826	1,654,965
	71,026,924	66,318,384
	$ 389,864,010	$ 389,074,624

See accompanying Notes to Consolidated Financial Statements

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

	For the three months ended September 30, 2006	2005
Interest and dividend revenue		
Loans, including fees	$ 4,118,206	$ 3,315,873
U.S. Treasury and government agency securities	709,789	871,838
State and municipal securities	36,227	66,927
Federal funds sold	450,742	378,846
Interest-bearing deposits	20,962	14,766
Equity securities	8,152	8,316
Total interest and dividend revenue	5,344,078	4,656,566
Interest expense		
Deposits	832,106	448,726
Borrowings	14,005	10,125
Total interest expense	846,111	458,851
Net interest income	4,497,967	4,197,715
Provision for loan losses	-	-
Net interest income after provision for loan losses	4,497,967	4,197,715
Noninterest revenue		
Service charges on deposit accounts	272,495	262,392
ATM and debit card revenue	127,202	108,364
Miscellaneous revenue	84,844	88,536
Total noninterest revenue	484,541	459,292
Noninterest expenses		
Salaries	818,334	768,349
Employee benefits	179,344	170,344
Occupancy	188,231	156,146
Furniture and equipment	150,167	147,460
Other operating	517,384	464,337
Total noninterest expenses	1,853,460	1,706,636
Income before income taxes	3,129,048	2,950,371
Income taxes	1,141,500	1,045,000
Net income	$ 1,987,548	$ 1,905,371

Earnings per common share, basic and diluted	$	0.63	$	0.60

See accompanying Notes to Consolidated Financial Statements

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

	For the nine months ended September 30, 2006	2005
Interest and dividend revenue		
Loans, including fees	$ 11,761,056	$ 9,403,300
U.S. Treasury and government agency securities	2,090,989	2,407,803
State and municipal securities	127,539	211,905
Federal funds sold	788,780	784,849
Interest-bearing deposits	56,285	39,629
Equity securities	51,554	39,976
Total interest and dividend revenue	14,876,203	12,887,462
Interest expense		
Deposits	2,210,833	1,189,036
Borrowings	36,260	19,763
Total interest expense	2,247,093	1,208,799
Net interest income	12,629,110	11,678,663
Provision for loan losses	-	-
Net interest income after provision for loan losses	12,629,110	11,678,663
Noninterest revenue		
Service charges on deposit accounts	852,560	784,588
ATM and debit card revenue	337,585	277,271
Miscellaneous revenue	298,313	299,802
Total noninterest revenue	1,488,458	1,361,661
Noninterest expenses		
Salaries	2,462,366	2,300,937
Employee benefits	562,831	553,555
Occupancy	537,140	472,641
Furniture and equipment	389,597	395,924
Other operating	1,448,024	1,416,572
Total noninterest expenses	5,399,958	5,139,629
Income before income taxes	8,717,610	7,900,695
Income taxes	3,148,500	2,807,000
Net income	$ 5,569,110	$ 5,093,695

Earnings per common share, basic and diluted	$	1.75	$	1.59

See accompanying Notes to Consolidated Financial Statements

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

	For the nine months ended September 30, 2006	2005
Cash flows from operating activities		
Interest and dividends received	$ 14,636,435	$ 12,536,294
Fees and commissions received	1,367,603	1,322,259
Interest paid	(2,087,971)	(1,179,635)
Cash paid to suppliers and employees	(5,181,433)	(4,783,172)
Income taxes paid	(3,220,114)	(2,690,920)
	5,514,520	5,204,826
Cash flows from investing activities		
Certificates of deposit purchased, net of maturities	(3,268)	(1,864)
Purchase of investments available for sale	(13,750,206)	(145,379)
Proceeds from maturities of investments held to maturity	58,150,000	65,215,000
Purchase of investment held to maturity	(16,026,291)	(45,080,673)
Loans made, net of principal collected	(24,404,008)	(34,433,834)
Purchases of premises, equipment, and computer software	(335,505)	(218,595)
	3,630,722	(14,665,345)
Cash flows from financing activities		
Net increase (decrease) in		
Time deposits	12,149,970	(6,464,506)
Other deposits	(12,139,491)	18,603,792
Securities sold under agreements to repurchase	(60,291)	1,543,699
Payments on note payable	(15,878)	(14,956)
Common shares repurchased	(1,111,431)	(749,592)
Dividends paid	(4,462,578)	-
	(5,639,699)	12,918,437
Net increase (decrease) in cash and cash equivalents	3,505,543	3,457,918
Cash and cash equivalents at beginning of period	50,425,595	54,623,503
Cash and cash equivalents at end of period	$ 53,931,138	$ 58,081,421

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

	For the nine months ended September 30, 2006	2005
Reconciliation of net income to net cash provided by operating activities		
Net income	$ 5,569,110	$ 5,093,695
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	452,549	492,740
Amortization of premiums and accretion of discount, net	(148,182)	(168,795)
Loss on disposition of assets	2,651	2,162
Decrease (increase) in		
Accrued interest receivable	(91,585)	(182,373)
Cash surrender value of bank owned life insurance	(120,288)	(113,686)
Other assets	(98,235)	36,914
Increase (decrease) in		
Accrued interest payable	159,122	29,164
Other liabilities	(210,622)	15,005
	$ 5,514,520	$ 5,204,826

Composition of cash and cash equivalents		
Cash and due from banks	$ 19,188,701	$ 24,123,033
Federal funds sold	34,737,015	33,915,275
Interest-bearing deposits, except for time deposits	5,422	43,113
	$ 53,931,138	$ 58,081,421

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 nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. 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, 2005.

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:

	2006	2005
Three months ended September 30	3,176,307	3,187,656
Nine months ended September 30	3,182,979	3,197,045

2. Comprehensive Income

Comprehensive income consists of:

	For the nine months ended September 30,	
	2006	2005
Net income	$ 5,569,110	$ 5,093,695
Unrealized gain on investment securities available for sale, net of income taxes	250,861	287,608
Comprehensive income	$ 5,819,971	$ 5,381,303

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 September 30, outstanding loan commitments and letters of credit consist of:

	2006	2005
Loan commitments	$ 48,337,226	$ 36,501,237
Standby letters of credit	$ 1,498,823	$ 1,277,488

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

4. New accounting standards

In February 2006, the FASB published FASB Statement No. 155, "Accounting for Certain Hybrid Financial Instruments" ("SFAS No. 155" or the "Statement"). SFAS 155 amends FASB Statements No. 133, "Accounting for Derivative Instruments and Hedging Activities" and No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Among other things, the Statement resolves issues related to the financial reporting of certain hybrid financial instruments (financial instruments that have embedded derivatives) to be accounted for as a whole at fair value if the holder elects this option. This accounting eliminates the need to bifurcate the derivative from its host. The Statement also eliminates certain previous guidance that provided that beneficial interests in securitized financial assets are not subject to the provisions of SFAS No. 133. Lastly, the Statement also eliminates a restriction on the passive derivative instruments that a qualifying special purpose entity may hold. Management does not expect the adoption of this Statement to have a material impact on the Company’s consolidated financial statements.

In March 2006, the FASB published FASB Statement No. 156, "Accounting for Servicing of Financial Assets" ("SFAS No. 156" or the "Statement"). This Statement amends FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", with respect to the accounting for separately recognized servicing assets and servicing liabilities. The Statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in each of several specific situations. It also requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable, and permits an entity to choose either of two accepted measurement methods for each class of separately recognized servicing assets and servicing liabilities. Further, the Statement permits, at its initial adoption, a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights. Lastly, the Statement requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value and additional disclosures for all separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective for fiscal years beginning after September 15, 2006. Management does not expect the adoption of this Statement to have a material impact on the Company’s consolidated financial statements.

In September, 2006, the FASB published FASB Statement No. 157, "Fair Value Measurements" ("SFAS No. 157"or the "Statement"). SFAS No. 157 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.

In September, 2006, the FASB published FASB Statement No. 158, "Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)". Under this new standard, companies must recognize a net liability or asset to report the funded status of their defined benefit pension and other postretirement benefit plans on their balance sheets. The effective date of the recognition and disclosure provisions for calendar-year public companies is for calendar years ending after December 15, 2006. Management does not expect SFAS No. 158 to have a material impact on the Company's consolidated financial statements since the Company does not currently have any defined benefit plans.

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 periodically based on a review of the loan portfolio, with a 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. 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 increased $789,386 from December 31, 2005 to September 30, 2006. Combined deposits and customer repurchase agreements decreased $49,811 during the same period. The Company’s average assets and average deposits increased from the second to third quarters of 2006 by $15.9 million and $13.4 million, respectively. This increase results from an annual cycle related to the local summer tourism industry. Management expects that asset size and deposit volume will fall during the fourth quarter as seasonal deposits are withdrawn.

During the first nine months of 2006, the Bank's gross loan portfolio has increased $24.4 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.

Historically, the Company has low loan charge-offs. Based on a review of the consolidated loan portfolio, the Company determined that an allowance of 0.95% of gross loans was adequate as of September 30, 2006. At December 31, 2005, the allowance was 1.06% of gross loans. At September 30, 2006, loans delinquent ninety days or more and still accruing interest totaled $225,515 or .10% of the portfolio. At December 31, 2005, loans delinquent ninety days or more and still accruing interest totaled $131,717 or .06% of the portfolio. At September 30, 2006, there was one nonaccrual loan with a balance of $5,357. There were no nonaccrual loans as of December 31, 2005.

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.

Liquidity

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 September 30, 2006.

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 44.81% for the third quarter of 2006 compared to 44.06% for the second quarter of 2006 and 61.61% for the third quarter of 2005. Contributing to the year-to-year decrease is growth of the loan portfolio which has been funded by decreased investments in debt securities. Liquidity levels have been stable from the second to the third quarter of this year.

Results of Operations

Net income for the three months ended September 30, 2006, was $1,987,548 or $.63 per share, compared to $1,905,371 or $.60 per share for the third quarter of 2005. This represents an increase of $82,177 or 4.31% from the prior year. Year to date net income has increased $475,415 or $.16 per share from $5,093,695 or $1.59 per share in 2005 to $5,569,110 or $1.75 per share in 2006. The key components of net income are discussed in the following paragraphs.

For the first nine months of 2006 compared to 2005, net interest income increased $950,447. Net interest income increased $300,252 in the third quarter of 2006 compared to the third quarter of 2005. This increase is attributable to 1) a shift in earning assets from federal funds sold and investment securities to higher yielding loans and 2) market rate increases that began in mid-2004. The Company's overnight investment in federal funds sold has repriced with the market, while debt securities and deposits in other banks are repricing more gradually. Although loan yields have increased only slightly, increases in the loan portfolio contribute to increased net interest spread. The Company's Management has implemented gradual increases to deposit rates in response to market pressures.

The tax-equivalent quarterly yield on interest-earning assets increased by 111 basis points from 4.97% for third quarter 2005 to 6.08% in 2006. The quarterly yield on interest-bearing liabilities increased by 78 basis points from .74% in 2005 to 1.52% in 2006. Combined, the result is an increase in net margin on interest-earning assets of 64 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 September 30, 2006			For the quarter ended September 30, 2005		
	Average balance	Interest	Yield	Average balance	Interest	Yield
Assets						
Federal funds sold	$34,536,931	$450,742	5.18%	$44,317,690	$378,846	3.39%
Interest-bearing deposits	2,200,454	20,962	3.78%	2,164,972	14,766	2.71%
Investment securities	86,506,091	806,850	3.70%	143,770,375	1,017,017	2.81%
Loans, net of allowance	230,717,689	4,142,871	7.12%	187,679,503	3,322,526	7.02%
Total interest-earning assets	353,961,165	$5,421,425	6.08%	377,932,540	$4,733,155	4.97%
Noninterest-bearing cash	18,497,065			20,786,478		
Other assets	13,556,213			13,072,374		
Total assets	$386,014,443			$411,791,392		
Liabilities and Stockholders' Equity						
Interest-bearing deposits						
NOW	$55,258,697	$32,594	0.23%	$67,815,151	$25,743	0.15%
Money market	42,420,120	82,943	0.78%	53,795,227	53,728	0.40%
Savings	47,520,408	70,538	0.59%	54,900,239	54,572	0.39%
Other time	68,473,727	646,031	3.74%	61,425,769	314,683	2.03%
Total interest-bearing deposits	213,672,952	832,106	1.55%	237,936,386	448,726	0.75%
Securities sold under agreements to repurchase & federal funds purchased	6,872,328	12,059	0.70%	7,802,266	7,866	0.40%
Borrowed funds	128,086	1,946	6.03%	148,953	2,259	6.02%
Total interest-bearing liabilities	220,673,366	846,111	1.52%	245,887,605	458,851	0.74%
Noninterest-bearing deposits	95,741,109			96,799,285		
	316,414,475	$846,111	1.06%	342,686,890	$458,851	0.53%
Other liabilities	457,252			142,224		
Stockholders' equity	69,142,716			68,962,278		
Total liabilities and stockholders' equity	$386,014,443			$411,791,392		
Net interest spread			4.56%			4.23%
Net interest income		$4,575,314			$4,274,304	
Net margin on interest-earning assets			5.13%			4.49%
Tax equivalent adjustment in:						
Investment income		$52,682			$69,936	
Loan income		$24,665			$6,653	

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 5.1% 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 three quarters of 2006 or 2005. Net loan charged-offs (recoveries) were ($69) during the first nine months of 2006 versus ($15,182) in the same period in 2005.

Noninterest revenue for the third quarter and year-to-date exceeds last year by $25,249 and $126,797, respectively. Two factors contribute significantly to this increase. In January 2006, the Bank increased service charges and deposit account activity fees. Additionally, fees related to use of ATM / VISA debit cards continue to rise due to increased usage.

Noninterest expense for the third quarter and year-to-date exceeds last year by $146,824 and $260,329, respectively. An increase of $170,705 in salaries and benefits for the first nine months of 2006 includes a bonus of $48,300 which was paid to nearly all employees. The Bank employed 95 full time equivalent employees as of September 30, 2006. The Bank hires seasonal employees during the summer. The Company has no employees other than those hired by the Bank.

Income taxes are $96,500 higher than the same quarter last year, on a pre-tax income increase of $178,677. For the first nine months of 2006, income taxes are $341,500 higher than last year, on a pre-tax income increase of $816,915. The Company’s effective tax rate for the first nine months of 2006 increased to 36.1% from 35.5% in the same period in 2005. The higher effective rate results from a reduction of tax preferenced income both in actual dollars and as a percentage of pretax income.

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 must review any such loan 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 $4,708,540 from December 31, 2005 to September 30, 2006. This increase is attributable to comprehensive income recorded during the period, as detailed in Note 2 of the Notes to Financial Statements, reduced by $1,111,431 used to repurchase and retire 30,873 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 September 30, 2006 and December 31, 2005 were 32.7% and 33.5%, 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 September 30, 2006, the Company's interest rate sensitivity, as measured by gap analysis, showed the Company was asset-sensitive with a one-year cumulative gap of 28.32%, 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 September 30, 2006. 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 September 30, 2006, 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 Purchased as Part of a Publicly Announced Program	(d) Maximum number of Shares that may yet be Purchased Under the Program
July	-	N/A	-	298,384
August	28,035	36.00	28,035	270,349
September	1,296	36.00	1,296	269,053
Totals	29,331	36.00	29,331	N/A

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 are presented on pages 19 and 20, respectively.

32. Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is presented on page 21.

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: November 6, 2006

By: /s/ Raymond M. Thompson

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: November 6, 2006 By: /s/ Jennifer G. Hawkins

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 September 30, 2006 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: November 6, 2006 By: /s/ Raymond M. Thompson

Raymond M. Thompson

Chief Executive Officer

Date: November 6, 2006 By: /s/ Jennifer G. Hawkins

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: November 6, 2006	By:	/s/ Raymond M. Thompson
		Raymond M. Thompson
		Chief Executive Officer
Date: November 6, 2006	By:	/s/ Jennifer G. Hawkins
		Jennifer G. Hawkins
		Treasurer (Principal Financial Officer)