TAYLOR CALVIN B BANKSHARES INC
Form 10-Q
August 07, 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 JUNE 30, 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 3,115,464 shares of common stock ($1.00 par) outstanding as of July 31, 2007.

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Calvin B. Taylor Bankshares, Inc. and Subsidiary

Part I - Financial Information

Consolidated Balance Sheets

	(unaudited) June 30, 2007	December 31, 2006
Assets		
Cash and due from banks	$ 22,347,697	$ 21,138,799
Federal funds sold	47,181,770	24,616,735
Interest-bearing deposits	1,765,428	2,055,689
Investment securities available for sale	20,820,763	18,854,192
Investment securities held to maturity (approximate fair value of $41,355,500 and $56,031,190)	41,507,457	56,271,631
Loans, less allowance for loan losses of $2,180,894 and $2,175,418	231,522,497	231,251,783
Premises and equipment	6,552,600	6,562,837
Accrued interest receivable	1,783,515	1,692,622
Computer software	169,058	175,383
Bank owned life insurance	4,624,172	4,530,259
Other assets	482,801	382,236
	$ 378,757,758	$ 367,532,166
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	$ 81,626,257	$ 79,625,853
Interest-bearing	218,132,659	210,698,907
	299,758,916	290,324,760
Securities sold under agreements to repurchase	4,309,705	5,624,048
Note payable	109,583	120,737
Accrued interest payable	438,961	340,155
Deferred income taxes	760,995	719,714
Other liabilities	85,584	233,196
	305,463,744	297,362,610
Stockholders' equity		
Common stock, par value $1 per share authorized 10,000,000 shares, issued and outstanding 3,132,922 shares at June 30, 2007, and 3,149,356 shares at December 31, 2006	3,132,922	3,149,356
Additional paid-in capital	13,523,192	14,117,732
Retained earnings	54,738,012	51,053,985
	71,394,126	68,321,073
Accumulated other comprehensive income	1,899,888	1,848,483
	73,294,014	70,169,556
	$ 378,757,758	$ 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 June 30, 2007		2006	
Interest and dividend revenue				
Loans, including fees	$	4,198,828	$	3,928,251
U.S. Treasury and government agency securities		597,304		649,515
State and municipal securities		17,533		43,353
Federal funds sold		526,685		200,550
Interest-bearing deposits		22,772		18,090
Equity securities		13,371		18,409
Total interest and dividend revenue		5,376,493		4,858,168
Interest expense				
Deposits		1,124,916		739,085
Borrowings		7,754		11,207
Total interest expense		1,132,670		750,292
Net interest income		4,243,823		4,107,876
Provision for loan losses		-		-
Net interest income after provision for loan losses		4,243,823		4,107,876
Noninterest revenue				
Service charges on deposit accounts		270,749		297,844
ATM and debit card revenue		123,841		115,336
Miscellaneous revenue		111,795		115,111
Total noninterest revenue		506,385		528,291
Noninterest expenses				
Salaries		863,550		809,015
Employee benefits		196,525		171,346
Occupancy		160,173		168,430
Furniture and equipment		108,019		130,272
Other operating		443,386		497,943
Total noninterest expenses		1,771,653		1,777,006
Income before income taxes		2,978,555		2,859,161
Income taxes		1,083,900		1,041,000
Net income	$	1,894,655	$	1,818,161
Earnings per common share - basic and diluted	$	0.60	$	0.57

See accompanying Notes to Consolidated Financial Statements

Calvin B. Taylor Bankshares, Inc. and Subsidiary

Consolidated Statements of Income (unaudited)

	For the six months ended June 30, 2007		2006	
Interest and dividend revenue				
Loans, including fees	$	8,351,726	$	7,642,850
U.S. Treasury and government agency securities		1,185,875		1,381,200
State and municipal securities		39,685		91,312
Federal funds sold		919,114		338,038
Interest-bearing deposits		45,511		35,323
Equity securities		41,148		43,402
Total interest and dividend revenue		10,583,059		9,532,125
Interest expense				
Deposits		2,147,163		1,378,727
Borrowings		16,451		22,255
Total interest expense		2,163,614		1,400,982
Net interest income		8,419,445		8,131,143
Provision for loan losses		-		-
Net interest income after provision for loan losses		8,419,445		8,131,143
Noninterest revenue				
Service charges on deposit accounts		529,466		580,065
ATM and debit card revenue		231,540		210,382
Miscellaneous revenue		210,956		213,470
Total noninterest revenue		971,962		1,003,917
Noninterest expenses				
Salaries		1,709,711		1,644,032
Employee benefits		406,019		383,487
Occupancy		340,401		348,909
Furniture and equipment		226,969		239,430
Other operating		918,780		930,640
Total noninterest expenses		3,601,880		3,546,498
Income before income taxes		5,789,527		5,588,562
Income taxes		2,105,500		2,007,000
Net income	$	3,684,027	$	3,581,562
Earnings per common share - basic and diluted	$	1.17	$	1.12

See accompanying Notes to Consolidated Financial Statements

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

	For the six months ended June 30, 2007	2006
Cash flows from operating activities		
Interest and dividends received	$ 10,304,624	$ 9,366,111
Fees and commissions received	871,657	923,460
Interest paid	(1,979,337)	(1,324,000)
Cash paid to suppliers and employees	(3,455,930)	(3,371,186)
Income taxes paid	(2,302,063)	(2,124,938)
	3,438,951	3,469,447
Cash flows from investing activities		
Certificates of deposit purchased, net of maturities	395,787	(2,252)
Proceeds from maturities of investments available for sale	12,000,000	-
Purchase of investments available for sale	(13,692,486)	(2,050,203)
Proceeds from maturities of investments held to maturity	25,760,000	35,395,000
Purchase of investments held to maturity	(10,989,737)	-
Loans made, net of principal collected	(270,714)	(29,206,329)
Proceeds from sale of equipment	5,824	-
Purchases of premises, equipment, and computer software	(265,852)	(251,729)
	12,942,822	3,884,487
Cash flows from financing activities		
Net increase (decrease) in		
Time deposits	11,467,308	3,018,750
Other deposits	(2,033,152)	(10,589,091)
Securities sold under agreements to repurchase	(1,314,343)	682,756
Payments on note payable	(11,154)	(10,506)
Common shares repurchased	(610,974)	(55,512)
Dividends paid	-	(4,462,578)
	7,497,685	(11,416,181)
Net increase (decrease) in cash and cash equivalents	23,879,458	(4,062,247)
Cash and cash equivalents at beginning of period	45,771,812	50,425,595
Cash and cash equivalents at end of period	$ 69,651,270	$ 46,363,348

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

	For the six months ended June 30, 2007	2006
Reconciliation of net income to net cash provided by operating activities		
Net income	$ 3,684,027	$ 3,581,562
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	278,098	299,092
Deferred income taxes	118	-
Amortization of premiums and accretion of discount, net	(187,607)	(42,727)
(Gain) loss on disposition of assets	(1,508)	-
Decrease (increase) in		
Accrued interest receivable	(90,893)	(123,287)
Cash surrender value of bank owned life insurance	(93,913)	(78,519)
Other assets	(100,565)	(17,751)
Increase (decrease) in		
Accrued interest payable	98,806	76,982
Accrued income taxes	113	-
Other liabilities	(147,725)	(225,905)
	$ 3,438,951	$ 3,469,447
Composition of cash and cash equivalents		
Cash and due from banks	$ 22,347,697	$ 20,258,241
Federal funds sold	47,181,770	26,008,837
Interest-bearing deposits, except for time deposits	121,803	96,270
	$ 69,651,270	$ 46,363,348

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 six months ended June 30, 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 June 30	3,139,456	3,186,014
Six months ended June 30	3,142,584	3,186,333

2. Comprehensive Income

Comprehensive income consists of:

	For the six months ended June 30,	
	2007	2006
Net income	$ 3,684,027	$ 3,581,562
Unrealized gain on investment securities available for sale, net of income taxes	51,405	139,921
Comprehensive income	$ 3,735,432	$ 3,721,483

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

3. Loan commitments

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

	June 30, 2007	December 31, 2006
Loan commitments	$ 33,916,121	$ 40,423,268
Standby letters of credit	$ 1,113,035	$ 1,682,942

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 - including an 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 Arrangements* 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 increased $11.2 million from December 31, 2006 to June 30, 2007. Combined deposits and customer repurchase agreements increased $8.1 million during the same period. During the second quarter of the year, the Bank typically experiences growth in deposits from seasonal business customers, summer residents and tourists. From first quarter to second quarter 2007, the Bank’s average assets and average deposits increased modestly by \$5.1 million (1.42%) and \$4.3 million (1.50%), respectively. Management carefully monitors deposit levels and their effect on liquidity, taking steps to retain core deposits.

The Company's investment portfolio has decreased by $12.8 million in the first six months of 2007. Investment securities that are classified as available for sale are comprised of both equity and debt securities. Due to loan portfolio growth, combined with deposit balance reductions during 2005 and 2006, management has begun classifying purchases of short-term U. S. Treasury Bills as available for sale. This has resulted in a gradual shift of investment balances from held to maturity into available for sale. This strategy provides increased availability of liquid funds for loan growth or deposit demand.

During the first quarter of 2007, the Bank's gross loan portfolio increased $7.3 million. By the end of the second quarter, the year-to-date increase had diminished to $276,190 due to the scheduled repayment of two large loans and a loan participation sold.

Based on its quarterly review of the consolidated loan portfolio, the Company determined that an allowance of $2.2 million was adequate as of June 30, 2007. Historically, the Company has low levels of loan delinquencies and charge-offs. Loans delinquent ninety days or more and still accruing interest totaled $2,913 or .001% of the portfolio at June 30, 2007, and $239,620 or .10% of the portfolio at December 31, 2006. There were no nonaccrual loans as of June 30, 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.

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 June 30, 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 39.66% for the second quarter of 2007 compared to 38.08% for the first quarter of 2007 and 44.06% for the second 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.

Results of Operations

Net income for the three months ended June 30, 2007*,* was $1,894,655 or $.60 per share, compared to $1,818,161 or $.57 per share for the second quarter of 2006. This represents an increase of $76,494 or 4.21% from the prior year. Year to date net income has increased $102,465 or $.05 per share from $3,581,562 or $1.12 per share in 2006 to $3,684,027 or $1.17 per share in 2007. The key components of net income are discussed in the following paragraphs.

For the first six months of 2007 compared to 2006, net interest income increased $288,302 (3.55%). Net interest income increased $135,947 (3.31%)in the second quarter 2007 compared to the second quarter 2006. This 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 67 basis points from 5.84% for second quarter 2006 to 6.51% in 2007. The quarterly yield on interest-bearing liabilities increased by 74 basis points from 1.36% in 2006 to 2.10% in 2007. In combination, these shifts contributed to an increase in net margin on interest-earning assets of 21 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 June 30, 2007			For the quarter ended June 30, 2006		
	Average balance	Interest	Yield	Average balance	Interest	Yield
Assets						
Federal funds sold	$40,680,165	$526,685	5.19%	$16,961,214	$200,550	4.74%
Interest-bearing deposits	2,021,169	22,772	4.52%	2,224,899	18,090	3.26%
Investment securities	57,593,773	670,450	4.67%	95,624,286	770,520	3.23%
Loans, net of allowance	235,225,454	4,226,327	7.21%	223,805,472	3,940,651	7.06%
Total interest-earning assets	335,520,561	5,446,234	6.51%	338,615,871	4,929,811	5.84%
Noninterest-bearing cash	16,068,149			18,042,747		
Other assets	13,462,537			13,408,287		
Total assets	$365,051,247			$370,066,905		
Liabilities and Stockholders' Equity						
Interest-bearing deposits						
NOW	$50,648,543	44,620	0.35%	$59,032,074	33,890	0.23%
Money market	34,237,355	80,852	0.95%	42,249,574	82,497	0.78%
Savings	44,869,370	82,849	0.74%	48,192,270	71,317	0.59%
Other time	82,776,690	916,595	4.44%	66,812,366	551,381	3.31%
Total interest-bearing deposits	212,531,958	1,124,916	2.12%	216,286,284	739,085	1.37%
Securities sold under agreements to repurchase & federal funds purchased	3,593,834	6,053	0.68%	5,504,844	9,180	0.67%
Borrowed funds	111,525	1,701	6.12%	133,410	2,027	6.09%
Total interest-bearing liabilities	216,237,317	1,132,670	2.10%	221,924,538	750,292	1.36%
Noninterest-bearing deposits	77,266,064	-		79,718,655	-	
	293,503,381	1,132,670	1.55%	301,643,193	750,292	1.00%
Other liabilities	624,267			518,141		
Stockholders' equity	70,923,599			67,905,571		
Total liabilities and stockholders' equity	$365,051,247			$370,066,905		
Net interest spread			4.41%			4.48%
Net interest income		$4,313,564			$4,179,519	
Net margin on interest-earning assets			5.16%			4.95%
Tax equivalent adjustment in:						
Investment income		$42,242			$59,243	

Loan income	$27,499	$12,400

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 six months of 2007 or 2006. Net loan charged-off (recovered) were ($5,476) during the first half of 2007 versus ($69) in the same period in 2006.

Noninterest revenue for the second quarter of 2007 is $21,906 (4.15%) less than last year. Noninterest revenue for the year-to-date is $31,955 (3.18%) less than last year. For both the quarter and the year-to-date, increased ATM and VISA debit card revenue helped to offset declines in deposit account service charges which are volume-related. Included in miscellaneous revenue is the increase in cash surrender value of bank owned life insurance, which is $15,394 (19.61%) higher in the first six months of 2007 than in the same period for 2006.

Noninterest expense for the second quarter of 2007 is $5,353 (.30%) less than last year. During the quarter, increased salary and benefit expense is offset by lower occupancy, furniture and equipment, and other operating expenses. Noninterest expense for the year-to-date is $55,382 (1.56%) more than last year. Included in this is a $10,377 (10.80%) increase in ATM/Debit Card processing fees which relates primarily to volume of transactions. Other notable variances in this category are due to the timing of routine period expenses that are recognized on a cash basis.

The Bank employed 98 full time equivalent employees as of June 30, 2007. The Bank hires seasonal employees during the summer, and employs year-round part-time employees to meet peak-time demands. The Company has no employees other than those hired by the Bank.

Income taxes are $98,500 higher this year than last, on a pre-tax income increase of $200,965. The Company's effective tax rate has increased from 35.91% through June 2006 to 36.37% through June 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. Effective May 2007, the Bank offers individual customers up to $30 million in FDIC insured deposits through the Certificate of Deposit Account Registry Services

®.

Capital Resources and Adequacy

Total stockholders' equity increased $3,124,458 from December 31, 2006 to June 30, 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 $610,974 used to repurchase and retire 16,434 shares of common stock. Stock repurchases were at prices ranging from $36.00 to $38.50 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 June 30, 2007 and December 31, 2006 were 32.3% and 32.2%, respectively. Both are substantially in excess of regulatory minimum requirements.

Fair value of debt securities

The following is a clarification of the method by which the Company establishes fair value of debt securities, as disclosed in its Annual Report as of December 31, 2006, 2005, and 2004:

The fair values of readily marketable debt securities are provided by an independent third party and are based on quoted market price. Debt securities that are not readily marketable are assigned values based on prices from multiple sources, mostly from dealers' bids and offers.

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 June 30, 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 26.78%, 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 June 30, 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 June 30, 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
April	4,600	36.00	4,600	253,092
Plan renewal				314,072
May	300	38.00	300	313,772
June	7,500	38.50	7,500	306,272
Totals	12,400		12,400	

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, and again on May 18, 2007, this plan was renewed, by public announcement, making up to 10% of the Company's outstanding equity stock at the time of renewal. This equated to a total of 314,072 common shares, available for repurchase as of May 18, 2007. 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

The Company held its annual meeting on May 9, 2007, during which the items detailed in the proxy statement dated March 23, 2007, were approved. This includes the reelection of the Board of Directors.

Item 5 Other information

Not applicable.

Item 6 Exhibits

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.

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: August 7, 2007	By:	/s/ Raymond M. Thompson
		Raymond M. Thompson
		Chief Executive Officer
Date: August 7, 2007	By:	/s/ Jennifer G Hawkins
		Jennifer G. Hawkins
		Treasurer (Principal Financial Officer)

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: August 7, 2007

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: August 7, 2007 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 June 30, 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: August 7, 2007 By: /s/ Raymond M. Thompson
Raymond M. Thompson
Chief Executive Officer

Date: August 7, 2007 By: /s/ Jennifer G Hawkins
Jennifer G. Hawkins
Treasurer (Principal Financial Officer)