TAYLOR CALVIN B BANKSHARES INC
Form 10-Q
May 08, 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 MARCH 31, 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 3,186,014 shares of common stock ($1.00 par) outstanding as of April 30, 2006.

Page 1

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

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Part I - Financial Information
Consolidated Balance Sheets

	(unaudited) March 31, 2006	December 31, 2005
Assets		
Cash and due from banks	$ 19,865,647	$ 24,069,790
Federal funds sold	14,885,421	26,296,780
Interest-bearing deposits	2,220,151	2,192,731
Investment securities available for sale	6,755,411	6,505,278
Investment securities held to maturity (approximate fair value of $97,199,326 and $111,306,528)	98,312,721	112,579,162
Loans, less allowance for loan losses of $2,190,734 and $2,190,709	219,875,078	204,441,957
Premises and equipment	6,597,851	6,664,051
Accrued interest receivable	1,632,310	1,504,945
Computer software	205,408	228,014
Bank owned life insurance	4,406,058	4,367,744
Other assets	164,101	224,172
	$ 374,920,157	$ 389,074,624
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	$ 80,342,041	$ 88,236,133
Interest-bearing	220,077,435	222,621,474
	300,419,476	310,857,607
Securities sold under agreements to repurchase	5,211,045	6,149,263
Dividend payable	-	4,462,578
Accrued interest payable	236,012	177,357
Note payable	136,855	142,069
Deferred income taxes	720,462	635,336
Other liabilities	105,098	332,030
	306,828,948	322,756,240
Stockholders' equity		

Common stock, par value $1 per share Authorized 10,000,000 shares, issued and outstanding 3,186,014 shares at March 31, 2006, and 3,187,556 shares at December 31, 2005	3,186,014	3,187,556
Additional paid-in capital	15,400,765	15,454,735
Retained earnings	47,784,529	46,021,128
	66,371,308	64,663,419
Accumulated other comprehensive income	1,719,901	1,654,965
	68,091,209	66,318,384
	$ 374,920,157	$ 389,074,624

See accompanying Notes to Consolidated Financial Statements

Page 3

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

	For the three months ended March 31, 2006	2005
Interest and dividend revenue		
Loans, including fees	$ 3,714,599	$ 2,883,229
U.S. Treasury and government agency securities	731,685	771,093
State and municipal securities	47,959	73,027
Federal funds sold	137,488	180,184
Interest-bearing deposits	17,233	12,162
Equity securities	24,993	21,456
Total interest and dividend revenue	4,673,957	3,941,151
Interest expense		
Deposits	639,642	356,595
Borrowings	11,048	4,419
Total interest expense	650,690	361,014
Net interest income	4,023,267	3,580,137
Provision for loan losses	-	-
Net interest income after provision for loan losses	4,023,267	3,580,137
Noninterest revenue		
Service charges on deposit accounts	282,220	255,598
ATM and debit card revenue	107,398	76,172
Miscellaneous revenue	86,008	97,891
Total noninterest revenue	475,626	429,661
Noninterest expenses		
Salaries	835,017	766,179
Employee benefits	212,141	183,027
Occupancy	180,479	163,897
Furniture and equipment	109,158	121,711
Other operating	432,697	447,525
Total noninterest expenses	1,769,492	1,682,339
Income before income taxes	2,729,401	2,327,459
Income taxes	966,000	827,000
Net income	$ 1,763,401	$ 1,500,459

Earnings per common share-basic and diluted	$ 0.55	$ 0.47

See accompanying Notes to Consolidated Financial Statements

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

	For the three months ended March 31, 2006	2005
Cash flows from operating activities		
Interest and dividends received	$ 4,507,986	$ 3,766,288
Fees and commissions received	421,970	466,133
Interest paid	(592,035)	(367,928)
Cash paid to suppliers and employees	(1,682,583)	(1,561,650)
Income taxes paid	(1,054,938)	(78,920)
	1,600,401	2,223,923
Cash flows from investing activities		
Certificates of deposit purchased, net of maturities	(1,257)	-
Purchase of investments available for sale	(100,000)	(100,000)
Proceeds from maturities of investments held to maturity	14,305,000	22,520,000
Purchase of investments held to maturity	-	(11,805,437)
Loans made, net of principal collected	(15,433,121)	(10,097,793)
Purchases of premises, equipment, and computer software	(60,709)	(69,346)
	(1,290,087)	447,424
Cash flows from financing activities		
Net increase (decrease) in		
Time deposits	4,237,151	(4,709,437)
Other deposits	(14,675,281)	10,038,004
Securities sold under agreements to repurchase	(938,219)	(1,009,976)
Payments on note payable	(5,214)	(4,911)
Common shares repurchased	(55,512)	(179,064)
Dividends paid	(4,462,578)	-
	(15,899,653)	4,134,616
Net increase (decrease) in cash and cash equivalents	(15,589,339)	6,805,963
Cash and cash equivalents at beginning of period	50,425,595	54,623,503
Cash and cash equivalents at end of period	$ 34,836,256	$ 61,429,466

See accompanying Notes to Consolidated Financial Statements

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

	For the three months ended March 31, 2006	2005
Reconciliation of net income to net cash provided by operating activities		
Net income	$ 1,763,401	$ 1,500,459

Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	149,515	162,880
Amortization of premiums and accretion of discount, net	(38,630)	(42,661)
Decrease (increase) in		
Accrued interest receivable	(127,365)	(132,204)
Cash surrender value of bank owned life insurance	(38,314)	(37,812)
Other assets	60,071	133,463
Increase (decrease) in		
Accrued interest payable	58,655	(6,914)
Accrued income taxes	(97,142)	748,080
Other liabilities	(129,790)	(101,368)
	$ 1,600,401	$ 2,223,923
Composition of cash and cash equivalents		
Cash and due from banks	$ 19,865,647	$ 29,187,591
Federal funds sold	14,885,421	32,181,358
Interest-bearing deposits, except for time deposits	85,188	60,517
	$ 34,836,256	$ 61,429,466

See accompanying Notes to Consolidated Financial Statements

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of financial position and results of operations have been made. These adjustments are of a normal recurring nature. Results of operations for the three months ended March 31, 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 for the Company's year ended December 31, 2005.

Consolidation has resulted in the elimination of all significant inter-company 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, which was 3,186,656 and 3,207,262, for the quarters ended March 31, 2006 and 2005, respectively.

2. Comprehensive Income

Comprehensive income consists of:

	Three months ended March 31, 2006	2005
Net income	$ 1,763,401	$ 1,500,459
Unrealized gain (loss) on investment securities available for sale, net of income taxes	64,936	96,707
Comprehensive income	$ 1,828,337	$ 1,597,166

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:

	March 31, 2006	December 31, 2005
Loan commitments	$ 42,553,092	$ 46,097,798
Standby letters of credit	$ 1,112,769	$ 1,272,000

Page 7

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 decreased $14.2 million from December 31, 2005 to March 31, 2006. Historically, during the first quarter of the year, the Bank experiences a decline in deposits since business customers are using their deposits to meet cash flow needs. In the first quarter of 2006 this decline has been larger in both dollars and percentage than in recent past years.

Management attributes this to the rising rate environment in which competitive pressures have increased. Generally, this situation reverses late in the second quarter of the year as the Bank receives deposits from seasonal business customers, summer residents and tourists. This seasonal deposit influx peaks in the third quarter and begins to fall off in the last quarter of each year.

Average total assets decreased $16.1 million and average deposits decreased $17.8 million from first quarter 2005 to first quarter 2006. Management carefully monitors deposit reductions and the effect on liquidity, taking necessary steps to retain core deposits.

During the first quarter of 2006, the Bank's gross loan portfolio has increased $15.4 million. Funding for these loans was provided primarily by a reduction in the Bank's investment portfolio. As loans earn at higher rate than investments, this shift has a positive impact on earnings.

Historically, the Company has low loan charge-offs. Based on a review of the consolidated loan portfolio, the Company determined that an allowance of ..99% of gross loans was adequate as of March 31, 2006. At December 31, 2005, the allowance was 1.06% of gross loans. At March 31, 2006, loans delinquent ninety days or more totaled $33,729 or .02% of the portfolio. At December 31, 2005, loans delinquent ninety days or more totaled $131,717 or .06% of the portfolio. There were no non-accruing loans as of March 31, 2006 or 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 March 31, 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 were 47.57% for the first quarter of 2006, compared to 65.11% for the first quarter of 2005. This decrease in liquidity is primarily due to growth in the loan portfolio, which has been funded by a decrease in federal funds sold and investment securities. This shift in earning assets is considered to be favorable to earnings, as average loan rates are higher than average rates on federal funds or the investment portfolio.

Results of Operations

Net income for the three months ended March 31, 2006, was $1,763,401 or $.55 per share, compared to $1,500,459 or $.47 per share per share for the first quarter of 2005. This represents an increase of $262,942. The key components of net income are discussed in the following paragraphs.

Net interest income increased $443,130 in the first three months of 2006 compared to the first three months of 2005. The fully taxable equivalent yield on interest earning assets increased by 105 basis points from 4.60% for first quarter 2005 to 5.65% in 2006, while the quarterly yield on interest-bearing liabilities increased by 58 basis points from .60% to 1.18%. These increases

Page 9

reflect the rise of market rates that began in mid-2004. The Company's overnight investment in federal funds sold has repriced with the market, while short-term debt securities are repricing more slowly. Loan rates are relatively unchanged, although increases in the loan portfolio contribute to increased net interest spread. The Company has implemented gradual increases to deposit rates.

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

Average Balances, Interest, and Yields

	For the Quarter Ended March 31, 2006			For the Quarter Ended March 31, 2005		
	Average Balance	Interest	Yield	Average Balance	Interest	Yi
Assets						
Federal funds sold	$ 11,961,214	$ 137,488	4.66%	$ 31,530,783	$ 180,184	2.
Interest-bearing deposits	2,210,639	17,233	3.16%	2,179,780	12,162	2.
Investment securities	111,527,103	868,428	3.16%	155,331,061	944,260	2.
Loans, net of allowance	214,622,776	3,721,059	7.03%	165,952,679	2,890,210	7.
Total interest-earning assets	340,321,732	$ 4,744,208	5.65%	354,994,303	$ 4,026,816	4.
Noninterest-bearing cash	17,665,735			19,195,122		
Other assets	13,335,106			13,211,140		
Total assets	$ 371,322,573			$ 387,400,565		
Liabilities and Stockholders' Equity						
Interest-bearing deposits						
Savings and NOW	$ 109,892,061	$ 88,712	0.33%	$ 124,020,021	$ 80,489	0.
Money market	43,825,976	78,852	0.73%	47,581,736	46,494	0.
Other time	64,635,447	472,078	2.96%	66,760,638	229,612	1.
Total interest-bearing deposits	218,353,484	639,642	1.19%	238,362,395	356,595	0.
Securities sold under agreements to repurchase & federal funds purchased	5,384,692	8,943	0.67%	5,298,550	2,011	0.
Borrowed funds	138,638	2,105	6.16%	158,929	2,408	6.
Total interest-bearing liabilities	223,876,814	650,690	1.18%	243,819,874	361,014	0.
Noninterest-bearing deposits	79,003,525	-		76,907,823	-	
	302,880,339	$ 650,690	0.87%	320,727,697	$ 361,014	0.
Other liabilities	2,596,084			423,570		
Stockholders' equity	65,846,150			66,249,298		
Total liabilities and stockholders' equity	$ 371,322,573			$ 387,400,565		
Net interest spread			4.47%			4.
Net interest income		$ 4,093,518			$ 3,665,802	
Net margin on interest-earning assets			4.88%			4.
Tax equivalent adjustment included in:						
Investment income		$ 63,791			$ 78,684	
Loan income		$ 6,460			$ 6,981	

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 less than five percent 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 quarters of 2006 or 2005. Net loan charge-offs (recoveries) were ($25) during the first quarter of 2006 versus ($14,626) during the first quarter of 2005.

Noninterest revenues exceeds last year by $45,965. Two significant factors are increases to the Bank's fee schedule which were effective in January 2006 and increased usage of VISA debit cards.

Noninterest expense variances include an increase in salaries of $68,838, of which $48,300 was a special bonus paid to nearly all employees. The Bank employed 97 full time equivalent employees as of March 31, 2006. The Bank hires seasonal employees during the summer. The Company has no employees other than those hired by the Bank.

Income taxes are $139,000 higher than last year, on a pre-tax income increase of $401,942. This is consistent with the Company's effective tax rate of approximately 35.6%.

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, also 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 these 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 funds, and automatic drafts for various accounts. The Bank offers bank-by-phone and Internet banking services, including electronic billpayment, to both commercial and retail customers. The Bank also offers non-deposit products including retail repurchase agreements and discount brokerage services through a correspondent bank.

Capital Resources and Adequacy

Total stockholders' equity increased $1,772,825 from December 31, 2005 to March 31, 2006. This increase is attributable to the comprehensive income recorded during the period, as detailed in Note 2 of the Notes to Financial Statements, reduced by $55,512 used to repurchase and retire 1,542 shares of common stock. Stock repurchases were at a price of $36.00 dollars per share.

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

Tier one risk-based capital ratios of the Company as of March 31, 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 March 31, 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 28.63%, as a percentage of interest-earning assets. Generally asset-sensitivity indicates that assets reprice more quickly than liabilities and, in a rising rate environment, net interest income typically increases. Conversely, if interest rates decrease, net interest income would decline. The Bank has classified its demand mortgage and commercial loans as immediately repriceable. Unlike loans tied to prime, these rates do not necessarily change as prime changes since the decision to call the loans and change the rates rests with management.

Page 12

Item 4. Controls and procedures

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

The Company's management, including the CEO and Treasurer, performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 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 March 31, 2006, the Company's management, including the CEO and Treasurer, has concluded that the Company's internal controls over financial reporting are effective.

Page 13

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 ended March 31, 2006. Following are descriptions of the significant categories of risk most relevant to the Company.

Credit risk is the risk to a bank's earnings or capital from the potential of an obligor to fulfill its contractual commitment to the bank. Credit risk is most closely associated with a bank's lending.

Interest rate risk is the risk to earnings or capital from the potential movement in interest rates. It is the sensitivity of a bank's future earnings to interest rate changes.

Liquidity risk is the risk to earnings or capital from a bank'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 most banks, 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 a bank's operating processes. It is a risk of failure in a bank's automation, its employee integrity, or its internal controls.

Compliance risk is the risk to earnings or capital from noncompliance with laws, rules, and regulations. In many banks compliance risk is the greatest risk a bank faces.

Reputation risk is the risk to earnings or capital from negative public opinion. The consumer and consumer relations are critical to a bank's success. Accordingly, a bank's reputation is extremely important and anything that would impair that reputation is a significant risk.

Strategic risk is the risk to earnings to capital arising from adverse business decisions or improper implementation of those decisions.

Page 14

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
January	600	$36.00	600	299,326
February	942	$36.00	942	298,384
March	-	N/A	-	298,384
Totals	1,542	$36.00	1,542	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. On 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 simultan-eously, 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

There were no matters submitted to security holders for a vote during the quarter ended March 31, 2006.

Item 5 Other information

Not applicable.

Item 6 Exhibits and Reports on Form 8-K

a) Exhibits

2. Proxy Statement dated April 17, 2006, is incorporated by reference.
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 16 and 17, 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 18.

b) Reports on Form 8-K

There was one report on Form 8-K filed during the quarter ended March 31, 2006.

Page 15

Exhibit 31.1

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

I, Raymond M. Thompson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Calvin B. Taylor Bankshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying 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
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Calvin B. Taylor Bankshares, Inc.

Date: May 5, 2006 By: /s/ Raymond M. Thompson
Raymond M. Thompson,
Chief Executive Officer

Page 16

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

I, Jennifer G. Hawkins, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Calvin B. Taylor Bankshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying 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
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Calvin B. Taylor Bankshares, Inc.

Date: May 5, 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 March 31, 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: May 5, 2006 By: /s/ Raymond M. Thompson
Raymond M. Thompson,
Chief Executive Officer

Date: May 5, 2006 By: /s/ Jennifer G. Hawkins
Jennifer G. Hawkins
Treasurer
(Principal Financial Officer)

SIGNATURES

Pursuant to the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Calvin B. Taylor Bankshares, Inc.

Date: May 5, 2006 By: /s/ Raymond M. Thompson
Raymond M. Thompson,
Chief Executive Officer

Date: May 5, 2006 By: /s/ Jennifer G. Hawkins
Jennifer G. Hawkins
Treasurer
(Principal Financial Officer)