TAYLOR CALVIN B BANKSHARES INC
Form 10-Q
August 06, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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, 2009
Commission File No. 000-50047

Calvin B. Taylor Bankshares, Inc.

(Exact name of registrant as specified in its Charter)

Maryland

(State of incorporation or organization)

52-1948274

(I.R.S. Employer Identification No.)

24 North Main Street, Berlin, Maryland 21811

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (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]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). N/A (not required at this time)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ____	Accelerated filer [X]
Non- accelerated filer ____ (Do not check if a smaller reporting company)	Smaller reporting company ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). No [X]

On July 31, 2009, 3,013,872 shares of the registrant's common stock were issued and outstanding.

Calvin B. Taylor Bankshares, Inc. and Subsidiary

Form 10-Q

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Part I - Financial Information, Item 1 Financial Statements

Calvin B. Taylor Bankshares, Inc. and Subsidiary

Consolidated Balance Sheets

	(unaudited) June 30 2009	December 31, 2008
Assets		
Cash and due from banks	$ 16,377,032	$ 8,769,784
Federal funds sold	30,025,624	26,460,842
Interest-bearing deposits	11,184,692	15,517,115
Investment securities available for sale	37,515,995	33,975,271
Investment securities held to maturity (approximate fair value of $39,949,617 and $33,523,422)	39,503,779	32,621,797
Loans, less allowance for loan losses of $879,255 and $707,152	243,797,780	241,430,914
Premises and equipment	6,586,128	6,326,312
Accrued interest receivable	1,441,464	1,704,260
Computer software	153,598	156,372
Bank owned life insurance	5,000,900	4,914,810
Other assets	858,876	725,034
	$ 392,445,868	$ 372,602,511
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	$ 78,427,333	$ 70,652,032
Interest-bearing	231,610,433	221,807,181
	310,037,766	292,459,213
Securities sold under agreements to repurchase	6,994,606	5,742,765
Note payable	61,473	74,046
Accrued interest payable	242,284	359,673
Deferred income taxes	1,301,515	1,437,813
Other liabilities	295,674	245,507
	318,933,318	300,319,017
Stockholders' equity		
Common stock, par value $1 per share authorized 10,000,000 shares, issued and outstanding 3,021,644 shares at June 30, 2009, and 3,048,397 shares at December 31, 2008	3,021,644	3,048,397
Additional paid-in capital	9,444,272	10,406,403
Retained earnings	59,059,780	56,569,913
	71,525,696	70,024,713
Accumulated other comprehensive income	1,986,854	2,258,781
	73,512,550	72,283,494
	$ 392,445,868	$ 372,602,511

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 2009	2008
Interest and dividend revenue		
Loans, including fees	$ 3,964,295	$ 4,202,710
U.S. Treasury and government agency securities	396,248	503,184
State and municipal securities	11,085	9,589
Federal funds sold	16,956	196,420
Interest-bearing deposits	28,016	53,812
Equity securities	13,929	18,715
Total interest and dividend revenue	4,430,529	4,984,430
Interest expense		
Deposits	641,791	985,875
Borrowings	8,112	7,886
Total interest expense	649,903	993,761
Net interest income	3,780,626	3,990,669
Provision for loan losses	296,500	5,284
Net interest income after provision for loan losses	3,484,126	3,985,385
Noninterest revenue		
Service charges on deposit accounts	252,016	279,991
ATM and debit card	134,913	135,278
Bank owned life insurance	42,926	50,087
Miscellaneous revenue	70,360	70,925
Total noninterest revenue	500,215	536,281
Noninterest expenses		
Salaries	907,929	892,763
Employee benefits	210,847	223,356
Occupancy	180,733	183,472
Furniture and equipment	111,322	129,112
Data proccessing	69,327	113,965
ATM and debit card	69,950	72,730
Deposit insurance premiums	252,843	11,377
Other operating	397,214	319,254
Total noninterest expenses	2,200,165	1,946,029
Income before income taxes	1,784,176	2,575,637
Income taxes	633,000	932,700
Net income	$ 1,151,176	$ 1,642,937
Earnings per common share - basic and diluted	$ 0.38	$ 0.53

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 2009	2008
Interest and dividend revenue		
Loans, including fees	$ 8,027,341	$ 8,379,255
U.S. Treasury and government agency securities	845,412	1,137,993
State and municipal securities	21,398	20,800
Federal funds sold	33,187	447,894
Interest-bearing deposits	106,780	121,938
Equity securities	40,069	47,036
Total interest and dividend revenue	9,074,187	10,154,916
Interest expense		
Deposits	1,359,337	2,149,907
Borrowings	16,034	15,089
Total interest expense	1,375,371	2,164,996
Net interest income	7,698,816	7,989,920
Provision for loan losses	629,600	76,493
Net interest income after provision for loan losses	7,069,216	7,913,427
Noninterest revenue		
Service charges on deposit accounts	500,078	522,962
ATM and debit card	252,592	248,817
Bank owned life insurance	86,090	98,549
Miscellaneous revenue	122,275	134,189
Total noninterest revenue	961,035	1,004,517
Noninterest expenses		
Salaries	1,803,659	1,759,705
Employee benefits	430,050	444,767
Occupancy	378,437	371,320
Furniture and equipment	236,967	240,462
Data proccessing	141,134	183,440
ATM and debit card	148,652	140,718
Deposit insurance premiums	265,397	17,482
Other operating	759,089	639,914
Total noninterest expenses	4,163,385	3,797,808
Income before income taxes	3,866,866	5,120,136
Income taxes	1,377,000	1,855,000
Net income	$ 2,489,866	$ 3,265,136
Earnings per common share - basic and diluted	$ 0.82	$ 1.06

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, 2009	2008
Cash flows from operating activities		
Interest and dividends received	$ 9,365,428	$ 9,955,388
Fees and commissions received	699,948	911,169
Interest paid	(1,492,760)	(2,302,316)
Cash paid to suppliers and employees	(3,711,547)	(3,570,478)
Income taxes paid	(1,464,434)	(1,838,615)
	3,396,635	3,155,148
Cash flows from investing activities		
Certificates of deposit purchased, net of maturities	4,292,385	(1,514,507)
Proceeds from maturities of investments available for sale	17,000,000	17,000,000
Purchase of investments available for sale	(20,971,715)	(1,980,283)
Proceeds from maturities of investments held to maturity	11,450,000	13,810,000
Purchase of investments held to maturity	(18,337,596)	(13,183,013)
Loans made, net of principal collected	(3,020,989)	(3,574,465)
Proceeds from sale of repossessed loan collateral	39,501	-
Purchases of premises, equipment, and computer software	(546,566)	(112,144)
Proceeds from sale of equipment	1,400	-
	(10,093,580)	10,445,588
Cash flows from financing activities		
Net increase (decrease) in		
Time deposits	1,965,728	(6,890,769)
Other deposits	15,612,825	(1,213,275)
Securities sold under agreements to repurchase	1,251,841	807,831
Payments on note payable	(12,573)	(11,842)
Common shares repurchased	(988,884)	(478,440)
	17,828,937	(7,786,495)
Net increase in cash and cash equivalents	11,131,992	5,814,241
Cash and cash equivalents at beginning of period	35,270,664	40,568,264
Cash and cash equivalents at end of period	$ 46,402,656	$ 46,382,505

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, 2009	2008
Reconciliation of net income to net cash provided by operating activities		
Net income	$ 2,489,866	$ 3,265,136
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	629,600	76,493
(Gain) loss on sale of repossessed loan collateral	(1,203)	-
(Gain) loss on sale of equipment and computer software	15,580	-
Amortization of premiums and accretion of discount, net	28,379	(90,043)
Depreciation and amortization	272,546	285,933
Decrease (increase) in		
Accrued interest receivable	262,796	(109,536)
Cash surrender value of bank owned life insurance	(86,090)	(98,549)
Other assets	(147,617)	107,290
Increase (decrease) in		
Accrued interest payable	(117,389)	(137,320)
Accrued income taxes	1,208	-
Other liabilities	48,959	(144,256)
	$ 3,396,635	$ 3,155,148
Composition of cash and cash equivalents		
Cash and due from banks	$ 16,359,555	$ 14,691,171
Federal funds sold	30,025,624	31,643,783
Interest-bearing deposits, except for time deposits	17,477	47,551
	$ 46,402,656	$ 46,382,505

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 conform with accounting principles generally accepted in the United States of America and to the instructions to Form 10-Q. Interim financial statements do not include all the information and footnotes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of financial position and results of operations for these interim periods have been made. These adjustments are of a normal recurring nature. Results of operations for the six months ended June 30, 2009 are not necessarily indicative of the results that may be expected in any other interim period or for the year ending December 31, 2009. 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, 2008.

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:

	2009	2008
Three months ended June 30	3,025,055	3,091,956
Six months ended June 30	3,032,475	3,094,857

2. Comprehensive Income

Comprehensive income consists of:

	For the six months ended June 30, 2009	2008
Net income	$ 2,489,866	$ 3,265,136
Unrealized gain (loss) on investment securities available for sale, net of income taxes	(271,927)	(157,086)
Comprehensive income	$ 2,217,939	$ 3,108,050

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

3. Investment Securities
Investment securities are summarized as follows:

	Amortized cost	Unrealized gains	Unrealized losses	Fair value
June 30, 2009				
Available for sale				
U.S. Treasury	$ 32,258,772	$ 954,677	$ 8,774	$ 33,204,675
State and municipal	400,000	5,223		405,223
Equity	1,691,841	2,214,256	-	3,906,097
	$ 34,350,613	$ 3,174,156	$ 8,774	$ 37,515,995
Held to maturity				
U.S. Treasury	$ 25,506,530	$ 453,245	$ 16,321	$ 25,943,454
U.S. Government agency	10,999,942	18,549	6,898	11,011,593
State and municipal	2,997,307	6,562	9,299	2,994,570
	$ 39,503,779	$ 478,356	$ 32,518	$ 39,949,617
December 31, 2008				
Available for sale				
U.S. Treasury	$ 28,309,823	$ 1,408,794	$ -	$ 29,718,617
State and municipal	400,000	5,220	590	404,630
Equity	1,691,841	2,160,183	-	3,852,024
	$ 30,401,664	$ 3,574,197	$ 590	$ 33,975,271
Held to maturity				
U.S. Treasury	$ 24,519,603	$ 861,569	$ -	$ 25,381,172
U.S. Government agency	6,999,443	32,657	1,016	7,031,084
State and municipal	1,102,751	8,415	-	1,111,166
	$ 32,621,797	$ 902,641	$ 1,016	$ 33,523,422

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

3. Investment Securities (Continued)

The table below shows the gross unrealized losses and fair value of securities that are in an unrealized loss position as of June 30, 2009, aggregated by length of time that individual securities have been in a continuous unrealized loss position.

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U. S. Treasury	$ 7,960,625	$ 25,095	$ -	$ -	$ 7,960,625	$ 25,095
U. S. Government Agency	3,993,473	6,898	-	-	3,993,473	6,898
State and municipal	1,960,949	9,299	-	-	1,960,949	9,299
	$ 13,915,047	$ 41,292	$ -	$ -	$ 13,915,047	$ 41,292

The debt securities for which an unrealized loss is recorded are issues of the U.S. Treasury, the Federal Home Loan Bank (a U. S. government agency), and general and highly rated revenue obligations of states and municipalities. The Company has the ability and the intent to hold these securities until they are called or mature at face value. Fluctuations in fair value reflect market conditions, and are not indicative of an other-than-temporary impairment of the investment.

The amortized cost and estimated fair value of debt securities, by contractual maturity and the amount of pledged securities, follow. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2009		December 31, 2008	
	Amortized cost	Fair value	Amortized cost	Fair value
Available for sale				
Within one year	$ 7,191,889	$ 7,194,855	$ 17,159,259	$ 17,201,296
After one year through five years	23,470,675	23,795,668	9,554,499	9,960,076
After ten years	1,996,208	2,619,375	1,996,065	2,961,875
	$ 32,658,772	$ 33,609,898	$ 28,709,823	$ 30,123,247
Held to maturity				
Within one year	$ 21,117,003	$ 21,446,196	$ 13,766,474	$ 14,027,311
After one year through five years	18,386,676	18,503,421	18,855,323	19,496,111
	$ 39,503,679	$ 39,949,617	$ 32,621,797	$ 33,523,422
Pledged securities	$ 24,722,541	$ 25,852,188	$ 25,023,730	$ 26,891,914

Investments are pledged to secure deposits of federal and local governments. Pledged securities also serve as collateral for securities sold under agreements to repurchase.

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

4. 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, 2009		December 31, 2008	
Loan commitments and lines of credit				
Construction and land development	$	13,084,249	$	15,218,812
Other		19,321,342		22,245,089
	$	32,405,591	$	37,463,901
Standby letters of credit	$	1,874,527	$	1,921,878

5. Assets Measured at Fair Value

The Company values investment securities classified as available for sale at fair value on a recurring basis. The fair value hierarchy established in Statement of Financial Accounting Standards No. 157, *Fair Value Measurements,* defines three input levels for fair value measurement. Level 1 is based on quoted market prices in active markets for identical assets. Level 2 is based on significant observable inputs other than those in Level 1. Level 3 is based on significant unobservable inputs. The Company values US Treasury securities, government agency securities, and an equity investment in an actively traded public utility under Level 1. Municipal debt securities and equity investments in community banks are valued under Level 2. The Company has no assets measured at fair value on a recurring basis that are valued under Level 3 criteria. At June 30, 2009, values for available for sale investment securities were established as follows:

	Total		Level 1 Inputs		Level 2 Inputs
Investment securities available for sale	$	37,515,995	$	33,488,739	$ 4,027,256

The Company does not have the intent to sell any of these securities; and deems that it is more likely than not that it will not have to sell any of these securities before recovery of their individual cost basis.

Estimated fair values of the Company's financial instruments, including cash, interest-bearing deposits, investment securities, loans, and interest-bearing deposit liabilities are detailed in the Company's 2008 Form 10-K. It is not practicable for the Company to disclose this information for interim periods.

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

6. New accounting standards

The following accounting pronouncements have been approved by the Financial Accounting Standards Board but have not become effective as of December 31, 2008. These pronouncements would apply to the Company if the Company or the Bank entered into an applicable activity.

Statements of Financial Accounting Standards

SFAS No. 141, "Business Combinations (Revised 2007)." SFAS 141R replaces SFAS 141, *"Business Combinations,"* and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. SFAS 141R is applicable to the accounting for business combinations closing on or after January 1, 2009. It has had no impact on the Company's financial statements.

SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51." SFAS 160 amends Accounting Research Bulletin (ARB) No. 51, *"Consolidated Financial Statements,"* to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. SFAS 160 became effective on January 1, 2009 and had no impact on the Company's financial statements.

SFAS No. 161, "Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133." SFAS 161 amends SFAS 133, *"Accounting for Derivative Instruments and Hedging Activities,"* to amend and expand the disclosure requirements of SFAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. SFAS 161 became effective on January 1, 2009 and had no impact on the Company's financial statements.

SFAS No. 165, "Subsequent Events." SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. SFAS 165 defines (i) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 became effective for periods ending after June 15, 2009. SFAS 165 did not have a significant impact on the Company's financial statements.

SFAS No. 166, "Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140." SFAS 166 amends SFAS 140, *"Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,"* to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. SFAS 166 eliminates the concept of a *"qualifying special-purpose entity"* and changes the requirements for derecognizing financial assets. SFAS 166 also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. SFAS 166 will be effective January 1, 2010 and is not expected to have a significant impact on the Company's financial statements.

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

SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)."

SFAS 167 amends FIN 46 (Revised December 2003), *"Consolidation of Variable Interest Entities,"* to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. SFAS 167 requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity's financial statements. SFAS 167 will be effective January 1, 2010 and is not expected to have a significant impact on the Company's financial statements.

SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a Replacement of FASB Statement No. 162." SFAS 168 replaces SFAS 162, *"The Hierarchy of Generally Accepted Accounting Principles"* and establishes the FASB Accounting Standards Codification (the *"Codification"*) as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with generally accepted accounting principles. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative guidance for SEC registrants. All guidance contained in the Codification carries an equal level of authority. All non-grandfathered, non-SEC accounting literature not included in the Codification is superseded and deemed non-authoritative. SFAS 168 will be effective for the Company's financial statements for periods ending after September 15, 2009. SFAS 168 is not expected have a significant impact on the Company's financial statements.

Financial Accounting Standards Board Staff Positions and Interpretations

FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 became effective on January 1, 2009 and had no impact on the Company's financial statements

FSP SFAS. 132R-1, "Employers' Disclosures about Postretirement Benefit Plan Assets." FSP SFAS 132R-1 provides guidance related to an employer's disclosures about plan assets of defined benefit pension or other post-retirement benefit plans. Under FSP SFAS 132R-1, disclosures should provide users of financial statements with an understanding of how investment allocation decisions are made, the factors that are pertinent to an understanding of investment policies and strategies, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period and significant concentrations of risk within plan assets. The disclosure required by FSP SFAS 132R-1 will be effective beginning with the financial statements for the year-ended December 31, 2009 and is not expected to have a significant impact on the Company's financial statements.

FSP SFAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." FSP SFAS 157-4 affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction, and clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active. FSP SFAS 157-4 requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence. FSP SFAS 157-4 also amended SFAS 157, *"Fair Value Measurements,"* to expand certain disclosure requirements. The provisions of FSP SFAS 157-4 became effective on January 1, 2009 and had no impact on the Company's financial statements

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

FSP SFAS 115-2 and SFAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments."

FSP SFAS 115-2 and SFAS 124-2 (i) changes existing guidance for determining whether an impairment is other than temporary to debt securities and (ii) replaces the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under FSP SFAS 115-2 and SFAS 124-2, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. The Company adopted the provisions of FSP SFAS 115-2 and SFAS 124-2 during the second quarter of 2009. Adoption of FSP SFAS 115-2 and SFAS 124-2 did not significantly impact the Company's financial statements.

FSP SFAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." FSP SFAS 107-1 and APB 28-1 amends SFAS 107, *"Disclosures about Fair Value of Financial Instruments,"* to require an entity to provide disclosures about the fair value of financial instruments in interim financial information and amends Accounting Principles Board (APB) Opinion No. 28, *"Interim Financial Reporting,"* to require those disclosures in summarized financial information at interim reporting periods. Interim disclosures required by FSP SFAS 107-1 and APB 28-1 are included in Note 5 – Assets Measured at Fair Value.

FSP SFAS 141R-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies." FSP SFAS 141R-1 amends the guidance in SFAS 141R to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with SFAS 5, *"Accounting for Contingencies,"* and FASB Interpretation (FIN) No. 14, *"Reasonable Estimation of the Amount of a Loss."* FSP SFAS 141R-1 removes subsequent accounting guidance for assets and liabilities arising from contingencies from SFAS 141R and requires entities to develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies. FSP SFAS 141R-1 eliminates the requirement to disclose an estimate of the range of outcomes of recognized contingencies at the acquisition date. For unrecognized contingencies, entities are required to include only the disclosures required by SFAS 5. FSP SFAS 141R-1 also requires that contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination be treated as contingent consideration of the acquirer and should be initially and subsequently measured at fair value in accordance with SFAS 141R. FSP SFAS 141R-1 is effective for assets or liabilities arising from contingencies the Company acquires in business combinations occurring after January 1, 2009.

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. The Bank employed 96 full time equivalent employees as of June 30, 2009. The Bank hires seasonal employees during the summer. The Company has no employees other than those hired by 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.

The allowance for loan losses (ALLL) represents management’s best estimate of inherent probable losses in the loan portfolio as of the balance sheet date. It is one of the most difficult and subjective judgments. The adequacy of the allowance for loan losses is evaluated no less than quarterly. The determination of the balance of the allowance for loan losses is based on management’s judgments about the credit quality of the loan portfolio as of the review date. It should be sufficient to absorb losses in the loan portfolio as determined by management’s consideration of factors including an analysis of historical losses, specific reserves for non-performing or past due loans, delinquency trends, portfolio composition (including segment growth or shifting of balances between segments, products and processes, and concentrations of credit, both regional and by relationship), lending staff experience and changes, critical documentation and policy exceptions, risk rating analysis, interest rates and the competitive environment, economic conditions in the Bank’s service area, and results of independent reviews, including audits and regulatory examinations.

Financial Condition

Total assets of the Company increased $19.8 million (5.33%) from December 31, 2008 to June 30, 2009. Combined deposits and customer repurchase agreements increased $18.8 million (6.31%) during the same period. Average total assets and average total deposits increased $18.8 million and $20.7 million, respectively, from second quarter 2008 to second quarter 2009. Management believes that some of the recent growth in deposit balances results from market instability that is part of a continuing general economic recession. Consumers often seek the safety of conservatively run community banks when the stock market has a significant and prolonged downturn. For further discussion of seasonal activity that affects deposit levels, see the section titled Liquidity.

Loan Portfolio

During the first half of 2009, the Bank's gross loan portfolio has grown $2.5 million (1.05%). Growth in the loan portfolio has been funded by increased deposit balances. Because loans earn at higher average rates than the cost of funds, this use of investable funds has a positive effect on earnings. There is no adverse impact on the Company's ability to meet liquidity demands resulting from increases in the loan portfolio.

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. Throughout 2008 and 2009, the local and regional economies have been adversely affected by a recession of national and international reach.

Loan Quality and the Allowance for Loan Losses

The allowance for loan losses (ALLL) represents an amount which management believes to be adequate to absorb identified and inherent losses in the loan portfolio as of the balance sheet date. Valuation of the allowance is completed no less than quarterly. The determination of the allowance is inherently subjective as it relies on estimates of potential loss related to specific loans, the effects of portfolio trends, and other internal and external factors.

The ALLL consists of (i) formula-based reserves comprised of potential losses in the balance of the loan portfolio segmented into homogeneous pools, (ii) specific reserves comprised of potential losses on loans that management has identified as impaired and (iii) unallocated reserves. Unallocated reserves are not associated with a specific portfolio segment or a specific loan, but may be appropriate if properly supported and in accordance with GAAP.

The Company evaluates loan portfolio risk for the purpose of establishing an adequate allowance for loan losses. In determining an adequate level for the formula-based portion of the ALLL, management considers historical loss experience for major types of loans. Homogenous categories of loans are evaluated based on loss experience in the most recent five years, applied to the current portfolio. This formulation gives weight to portfolio size and loss experience for categories of real estate construction loans, other real estate secured loans, other loans to commercial borrowers, and other consumer loans. However, historical data may not be an accurate predictor of loss potential in the current loan portfolio. Management also evaluates trends in delinquencies, the composition of the portfolio, concentrations of credit, and changes in lending products, processes, or staffing. Management further considers external factors such as the interest rate environment, competition, current local and national economic trends, and the results of recent independent reviews by auditors and banking regulators.

The ongoing slow-down in the real-estate market has affected both the price and time to market residential and commercial properties. Management closely monitors such trends and the potential effect on the Company. In recent months, borrowers whose cash flow is impaired as a result of prevailing economic conditions have also experienced depressed real estate values. Management recognizes that the combination of these circumstances – reduced revenue and depressed collateral values, may increase the likelihood of loss in the Bank's real estate secured loan portfolio. Management closely monitors conditions that might indicate deterioration of collateral value on significant loans and, when possible, obtains additional collateral as required to limit the Bank's loss exposure.

Management employs a risk rating system which gives weight to collateral status (secured vs. unsecured), and to the absence or improper execution of critical contract or collateral documents. Unsecured loans and those loans with critical documentation exceptions, as defined by management, are considered to have greater loss exposure. Management incorporates these factors in the formula-based portion of the ALLL. Additionally, consideration is given to those segments of the loan portfolio which management deems to pose the greatest likelihood of loss.

Management believes that in a general economic downturn, such as the region has experienced through 2008 and 2009, the Bank has increased likelihood of loss is in unsecured loans - commercial and consumer, and in secured consumer loans. Reserves for these segments of the portfolio are included in the formula-based portion of the ALLL. As of June 30, 2009, management reserved 75 bp against unsecured loans, and consumer loans secured by other than real estate. Both of these reserves were increased during the first and second quarters of this year in recognition of the prolonged economic challenges to regional, national, and global economies. Additionally, management reserved 10.0% against overdrawn checking accounts which are a distinct high risk category of unsecured loan.

The depth and length of the current recession has resulted in unusual stress to the Bank’s real estate secured portfolio as well. Rising delinquencies and falling collateral values have caused the Bank to suffer historically high losses in real estate secured loans. The Bank continually evaluates loss potential in the mortgage portfolio and provides specific reserves at the time a potential loss is identified.

Historically, the absence or improper execution of a document has not resulted in a loss to the Bank, however, management recognizes that the Bank’s loss exposure is increased until a critical contract or collateral documentation exception is cured. At June 30, 2009, management reserved 10 bp against the outstanding balances of loans identified as having critical documentation exceptions.

The provision for loan losses is a charge to earnings in the current period to maintain the allowance at a level management has determined to be appropriate. The allowance is increased by current period provisions and by recoveries of amounts previously charged-off. The allowance is decreased when loans are charged-off as losses, which occurs when they are deemed to be uncollectible. Adjustments made to bring the balance in the allowance to the level established by management may result in an increase or decrease to expense. Provisions for loan losses of $296,500 and $629,600 were made for the second quarter of 2009 and year-to-date, respectively. This compares to provisions for loan losses of $5,284 and $76,493 for the comparable periods in 2008. The year-to-year increases in the level of the ALLL and the provision for loan loss reflect the consequences of the current economy. As the recession continues and borrowers suffer personal and professional financial hardship, the likelihood of loss on previously performing loans has increased. As Management identifies loans with heightened loss potential, a provision for those losses is recorded.

Management considers the June 30, 2009 allowance appropriate and adequate to absorb identified and inherent losses in the loan portfolio. However, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required. As of June 30, 2009, management has identified two loans with balances totaling $17,569 which are anticipated to be wholly charged-off within the next 12 months.

The following is a schedule of transactions in the allowance for loan losses. The Bank experienced net charge-offs of $383,998 in the second quarter of 2009 and $457,497 in the current year to date. As described earlier, management attributes the increased loan losses to the effects of the current economic recession on some of the Bank's customers and, subsequently, on the Bank.

Allowance for Loan Losses

	For six months ended		For the year ended
	June 30		December 31
	2009	2008	2008
Balance at beginning of year	$ 707,152	$ 195,525	$ 195,525
Loans charged-off:			
Real estate - construction and land	-	-	-
Real estate - mortgage	369,150	-	-
Commercial	73,105	59,199	76,383
Consumer	29,548	10,000	34,532
Total loan losses	471,803	69,199	110,915
Recoveries on loans previously charged off:			
Real estate - construction	-	-	-
Real estate - mortgage	318	-	-
Commercial	276	-	3,785
Consumer	13,712	160	1,231
Total loan recoveries	14,306	160	5,016
Net loan charge-offs (recoveries)	457,497	69,039	105,899
Provision for loan losses charged to expense	629,600	76,493	617,526
Balance at end of period	$ 879,255	$ 202,979	$ 707,152
Average loans outstanding during the period	$ 244,373,445	$ 242,945,890	$ 238,873,590
Annualized net charge-offs as a percentage of average loans outstanding during the period	0.38%	0.06%	0.04%
Gross loans outstanding at the end of the period	$ 244,677,035	$ 241,777,229	$ 242,138,066
Allowance for loan losses to gross loans outstanding at the end of the period	0.36%	0.08%	0.29%

The accrual of interest on a loan is discontinued when principal or interest is ninety days past due or when the loan is determined to be impaired, unless collateral is sufficient to discharge the debt in full and the loan is in process of collection. When a loan is placed in nonaccruing status, any interest previously accrued but unpaid, is reversed from interest income. Interest payments received on nonaccrual loans may be recorded as cash basis income, or as a reduction of principal, depending on management's judgment on a loan by loan basis. Accrual of interest may be restored when all principal and interest are current and management believes that future payments will be received in accordance with the loan agreement.

Nonperforming loans are loans past due 90 or more days and still accruing plus nonaccrual loans. Nonperforming assets are comprised of nonperforming loans combined with real estate acquired in foreclosure and held for sale. There were no nonperforming assets other than nonperforming loans as of June 30, 2009 or December 31, 2008, as shown in the following table.

	June 30, 2009	December 31, 2008
Loans 90 days or more past due and still accruing		
Real estate	$ 583,372	$ 4,602,365
Commercial	-	40,000
Consumer	4,212	5,427
	587,584	4,647,792
Nonaccruing loans	1,801,010	199,724
Total nonperforming loans	$ 2,388,594	$ 4,847,516
Interest not accrued on nonaccruing loans	$ 100,964	$ 6,797
Interest included in net income on nonaccruing loans, year-to-date	$ 9,231	$ -

Included in amounts past due 90 days or more and still accruing at December 31, 2008, was a loan with a principal balance of $4,500,000. The Bank has been notified that there is a lien on the property securing this loan that is superior to the Bank's liens. The Bank was not aware of this lien at the time the loan was originated, and the Bank's settlement agent did not discover the lien during the title examination process. The Bank has filed a claim with the title company that has insured its lien. The Bank believes the title company will indemnify the Bank for any losses resulting from the superior lien, although there is no guarantee that this will be the case. As of June 30, 2009, interest on this loan was current. The Bank's claim with the title company has not yet been settled.

Loans are considered impaired when, based on current information, management considers it unlikely that collection of principal and interest payments will be made according to contractual terms. Generally, loans are not reviewed for impairment until the accrual of interest has been discontinued, although management may categorize a performing loan as impaired based on knowledge of the borrower's financial condition, devaluation of collateral, or other circumstances that are deemed relevant to loan collection. Impaired loans may have specific reserves, or valuation allowances, allocated to them in the ALLL. Estimates of loss reserves on impaired loans may be determined based on any of the three measurement methods described in Financial Accounting Standard 114 (FAS 114): (1) the present value of future cash flows, (2) the fair value of collateral, if repayment of the loan is expected to be provided by underlying collateral, or (3) the loan's observable fair value. The Bank selects and applies, on a loan-by-loan basis, the appropriate valuation method. Loans determined to be impaired, but for which no specific valuation allowance is made because management believes the loan is secured with adequate collateral or the Bank will not take a loss on such loan, are grouped with other homogeneous loans for evaluation under formula-based criteria described previously.

Impaired loans including nonaccruing loans totaled $4,573,646 and $8,888,200, at June 30, 2009, and December 31, 2008, respectively. Principal balances of impaired loans include $419,770 which is guaranteed by a government agency at both June 30, 2009, and December 31, 2008.

	June 30, 2009	December 31, 2008
Impaired loans with valuation allowances,		
including nonaccruing loans	$ 2,309,722	$ 4,328,618
Valuation allowances on impaired loans	$ 660,497	$ 605,405
Impaired loans with no valuation allowances	$ 2,263,924	$ 4,559,582
Total impaired loans	$ 4,573,646	$ 8,888,200

Liquidity

Liquidity represents the ability to provide steady sources of funds for loan commitments and investment activities, as well as to provide sufficient funds to cover deposit withdrawals and payment of debt and operating obligations. These funds can be obtained by converting assets to cash or by attracting new deposits. The Company’s major sources of liquidity are loan repayments, maturities of short-term investments including federal funds sold, and increases in core deposits. Funds from seasonal deposits are generally invested in short-term U.S. Treasury Bills and overnight federal funds.

Due to its location in a seasonal resort area, the Bank typically experiences a decline in deposits, federal funds sold and investment securities throughout the first quarter of the year when business customers are using their deposits to meet cash flow needs. Beginning late in the second quarter and throughout the third quarter, additional sources of liquidity become more readily available as business borrowers start repaying loans, and the Bank receives deposits from seasonal business customers, summer residents and tourists.

Average liquid assets (cash and amounts due from banks, interest-bearing deposits in other banks, federal funds sold, and investment securities) compared to average deposits and retail repurchase agreements were 38.91% for the second quarter of 2009 compared to 35.70% for the same quarter of 2008.

The Company has available lines of credit, including overnight federal funds and reverse repurchase agreements, totaling $28,000,000 as of June 30, 2009.

Average net loans to average deposits were 81.98% versus 87.83% as of June 30, 2009 and 2008, respectively. Average net loans increased by .33% while average deposits grew by 7.50%. Funding for loan growth was provided by deposit increases. Because loans earn higher average rates than the Bank’s cost of funds, this results in a positive effect on earnings. Average deposit balance increases occurred in interest-bearing accounts, especially time deposits. Average non-interest bearing deposit balances increased by a modest ..32%. Neither changes in deposit portfolio composition nor the increase in outstanding loan balances has a negative impact on the Company’s ability to meet liquidity demands.

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Interest Rate Sensitivity

The primary objective of asset/liability management is to ensure the steady growth of the Company's primary source of earnings, net interest income. Net interest income can fluctuate with significant interest rate movements. To lessen the impact of these margin swings, the balance sheet should be structured so that repricing opportunities exist for both assets and liabilities in roughly equivalent amounts at approximately the same time intervals. Imbalances in these repricing opportunities at any point in time constitute interest rate sensitivity.

Interest rate sensitivity refers to the responsiveness of interest-bearing assets and liabilities to changes in market interest rates. The rate-sensitive position, or gap, is the difference in the volume of rate-sensitive assets and liabilities at a given time interval. The general objective of gap management is to actively manage rate-sensitive assets and liabilities to reduce the impact of interest rate fluctuations on the net interest margin. Management generally attempts to maintain a balance between rate-sensitive assets and liabilities as the exposure period is lengthened to minimize the overall interest rate risk to the Company.

Interest rate sensitivity may be controlled on either side of the balance sheet. On the asset side, management exercises some control over maturities. Also, loans are written to provide repricing opportunities on fixed rate notes. The Company's investment portfolio, including federal funds sold, provides the most flexible and fastest control over rate sensitivity since it can generally be restructured more quickly than the loan portfolio.

On the liability side, deposit products are structured to offer incentives to attain the maturity distribution desired. Competitive factors sometimes make control over deposits more difficult and, therefore, less effective as an interest rate sensitivity management tool.

The asset mix of the balance sheet is continually evaluated in terms of several variables: yield, credit quality, appropriate funding sources, and liquidity. Management of the liability mix of the balance sheet focuses on expanding the various funding sources.

As of June 30, 2009, the Company was cumulatively asset-sensitive for all time horizons. For asset-sensitive institutions, if interest rates should decrease, the net interest margins should decline. Since all interest rates and yields do not adjust at the same velocity, the gap is only a general indicator of rate sensitivity.

Results of Operations

Net income for the three months ended June 30, 2009**,** was $1,151,176 or $.38 per share, compared to $1,642,937 or $.53 per share for the second quarter of 2008. This represents a decrease of $491,761 or 29.93% from the prior year. Year to date net income has decreased $775,270 or $.24 per share from $3,265,136 ($1.06/share) in 2008 to $2,489,866 ($.82/share) in 2009. The key components of net income are discussed in the following paragraphs.

For the second quarter of 2009 compared to 2008, net interest income decreased $210,043 (5.26%). Net interest income decreased $291,104 (3.64%) in the first six months of 2009 compared to the same period of 2008. The decrease in interest and dividend revenue is primarily attributable to market rate reductions which have resulted in the dramatic downward repricing of overnight federal funds. Interest expense decreased in the second quarter of 2009 by $343,858 (34.60%) relative to the comparable period last year due to lower rates on all deposits, but particularly time deposits. For the year to date, interest expense is down $789,625 (36.47%) relative to the previous year to date.

The Company’s net interest income is one of the most important factors in evaluating its financial performance. Management uses interest rate 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 an increase in net interest income of the same percentage. 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 or both.

The tax-equivalent quarterly yield on interest-earning assets decreased by 96 basis points from 6.13% for second quarter 2008 to 5.17% in 2009. The quarterly yield on interest-bearing liabilities decreased by 77 basis points from 1.89% in 2008 to 1.12% in 2009. In combination, these shifts contribute to a decrease in net margin on interest-earning assets of 49 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, 2009 Average balance	Interest	Yield	For the quarter ended June 30, 2008 Average balance	Interest	Yield
Assets						
Federal funds sold	$ 34,243,326	$ 16,956	0.20%	$ 36,853,798	$ 196,420	2.14%
Interest-bearing deposits	10,736,142	28,016	1.05%	6,187,025	53,812	3.50%
Investment securities	62,036,785	453,877	2.93%	47,007,470	573,601	4.91%
Loans, net of allowance	243,492,267	4,018,705	6.62%	242,688,085	4,244,251	7.03%
Total interest-earning assets	350,508,520	4,517,554	5.17%	332,736,378	5,068,084	6.13%
Noninterest-bearing cash	10,790,225			9,982,276		
Other assets	13,469,191			13,275,910		
Total assets	$ 374,767,936			$ 355,994,564		
Liabilities and Stockholders' Equity						
Interest-bearing deposits						
NOW	$ 49,940,208	27,331	0.22%	$ 49,985,477	49,790	0.40%
Money market	33,228,034	41,051	0.50%	30,608,620	71,854	0.94%
Savings	43,726,854	53,922	0.49%	40,745,123	75,144	0.74%
Other time	100,633,809	519,487	2.07%	85,698,618	789,087	3.70%
Total interest-bearing deposits	227,528,905	641,791	1.13%	207,037,838	985,875	1.92%
Securities sold under agreements to repurchase & federal funds purchased	5,751,306	7,126	0.50%	3,853,559	6,532	0.68%
Borrowed funds	63,638	986	6.21%	88,308	1,354	6.17%
Total interest-bearing liabilities	233,343,849	649,903	1.12%	210,979,705	993,761	1.89%
Noninterest-bearing deposits	69,497,742			69,272,622		
	302,841,591	649,903	0.86%	280,252,327	993,761	1.43%
Other liabilities	535,249			856,698		
Stockholders' equity	71,391,096			74,885,539		
Total liabilities and stockholders' equity	$ 374,767,936			$ 355,994,564		
Net interest spread			4.05%			4.24%
Net interest income		$ 3,867,651			$ 4,074,323	
Net margin on interest-earning assets			4.43%			4.92%
Tax equivalent adjustment in:						
Investment income		$ 32,615			$ 42,113	
Loan income		$ 54,410			$ 41,541	

Provisions for loan losses of $296,500 and $5,284 were recorded during the second quarter of 2009 and 2008, respectively. Net loans charged-off were $457,497 and $69,039 during the first half of 2009 and 2008, respectively. Management attributes the increased loan losses to the generally poor state of the economy which has had an adverse effect on certain borrowing customers. See Loan Quality and the Allowance for Loan Losses for a discussion of the provision for loan losses.

Noninterest revenue for the second quarter of 2009 is $36,066 (6.73%) lower than the comparable period last year. Noninterest revenue for the year-to-date is $43,482 (4.33%) less than last year. Both the quarter and the year-to-date results are largely due to decreased service charges on deposit accounts and the reduced rate of growth in cash surrender value of bank owned life insurance.

Noninterest expense for the second quarter of 2009 is $254,136 (13.06%), more than last year of which $241,466 is due to increased FDIC premiums. Noninterest expense year-to-date is $365,577 (9.63%) more than last year of which $247,915 is due to FDIC premium increases. FDIC insurance premiums have jumped dramatically due to increased rates and assessable balances, the expiration of the one-time insurance premium credit, and the accrual of a special assessment to restore the deposit insurance fund to target levels.

Income taxes for the six months ended June 30, 2009 are $478,000 (25.77%) lower than the same period last year, on a pre-tax income decrease of $1,253,270 (24.48%). This is consistent with the Company's effective tax rate of approximately 35.5%.

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, savings, and certificate of deposit accounts are tailored to the Bank's principal market areas at rates competitive to those offered in the area. The Bank also offers Individual Retirement Accounts (IRA), Health Savings Accounts, and Education Savings Accounts. All deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to the maximum amount allowed by law. The Bank solicits these accounts from individuals, businesses, associations and organizations, and governmental authorities. The Bank offers individual customers up to $50 million in FDIC insured deposits through the Certificate of Deposit Account Registry Services® network.

FDIC deposit insurance has been temporarily increased from $100,000 to $250,000 per depositor through December 31, 2013.

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 Bank 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 lends to directors and officers of the Company and the Bank under terms comparable to those offered to other borrowers entering into similar loan transactions. The Board of Directors approves all loans to officers and directors and reviews these 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 bill-payment, to both commercial and retail customers. The Bank offers a remote capture service that enables commercial customers to electronically capture check images and make on-line deposits. The Bank also offers non-deposit products including retail repurchase agreements and discount brokerage services through a correspondent bank.

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Capital Resources and Adequacy

Total stockholders' equity increased $1,229,056 from December 31, 2008 to June 30, 2009. This increase is attributable to comprehensive income recorded during the period, as detailed in Note 2 of the Notes to Financial Statements, reduced by $988,883 used to repurchase and retire 26,753 shares of common stock.

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, 2009 and December 31, 2008 were 31.5% and 31.8%, respectively. Both are substantially in excess of regulatory minimum requirements.

The Company and the Bank did not seek assistance under the federally funded Troubled Asset Relief Program (TARP) developed in the last quarter of 2008. Neither the Company nor the Bank will benefit directly from TARP funds. The Bank has not engaged in subprime mortgage lending, and has no investments in mortgage backed securities.

Late in 2008, the Company and the Bank elected to participate in the Temporary Liquidity Guarantee Program (TLG), which, in combination with temporary deposit insurance limit increases, provide the security of additional insurance to depositors. These actions have contributed to an increase in deposits in the Bank as investors seek the safety of insured deposits in community banks. Deposit insurance premiums will increase as a result of the higher deposit balances, the higher insurance limits, participation in TLG, and higher insurance rates. Management does not expect to pass all of the additional insurance premium costs on to customers.

In the most stable economic times, the Company cannot reliably predict the effect of changing government policies on earnings, or loan and deposit levels. Management expects 2009 to bring lower interest revenues and higher fees associated with loan collection and increased deposit insurance premiums. The full impact of the dramatic developments of 2008 on future results of operation of the Company and the Bank, are uncertain.

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, 2009, the Company's interest rate sensitivity, as measured by gap analysis, showed the Company was asset-sensitive with a one-year cumulative gap of 22.30%, 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, 2009. 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 effect on the Company's internal control over financial reporting. As of June 30, 2009, 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 failing 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 report.

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
April	3,184	36.75	3,184	199,124
May	1,406	36.75	1,406	197,718
June	2,724	36.68	2,724	194,994
Totals	7,314	36.73	7,314	

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 available for repurchase at the time of each 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 13, 2009, during which the items detailed in the proxy statement dated March 11, 2009, were approved. This includes the reelection of the Board of Directors.

Item 5 Other information

There is no information required to be disclosed in a report on Form 8-K during the period covered by this report, which has not been reported.

Item 6 Exhibits and Reports on Form 8-K

a) Exhibits

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

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

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 6, 2009 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 6, 2009 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, 2009 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 6, 2009 By: /s/ Raymond M. Thompson
Raymond M. Thompson
Chief Executive Officer

Date: August 6, 2009 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: August 6, 2009 By: /s/ Raymond M. Thompson
Raymond M. Thompson
Chief Executive Officer

Date: August 6, 2009 By: /s/ Jennifer G. Hawkins
Jennifer G. Hawkins
Treasurer (Principal Financial Officer)