COMMUNITY BANKSHARES INC /SC/
Form 10-Q
August 14, 2007

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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, 2007 Commission File No. 000-22054

COMMUNITY BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

South Carolina	57-0966962
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

102 Founders Court
Orangeburg, South Carolina 29118

(Address of principal executive offices, zip code)

(803) 535-1060

(Registrant's telephone number, including area code)

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. (Check one):

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

Indicate by check mark whether the registrant is 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: Common Stock, no par or stated value, 4,485,556 shares outstanding on July 25, 2007.

COMMUNITY BANKSHARES, INC.

FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. - Financial Statements

COMMUNITY BANKSHARES, INC.
Consolidated Balance Sheets

Assets

Cash and due from banks	
Federal funds sold	

Total cash and cash equivalents	
Interest bearing deposits with other banks	
Securities available-for-sale	
Securities held-to-maturity (estimated fair value $1,750 for 2007 and $1,750 for 2006)	
Other investments	
Loans held for sale	
Loans receivable	
Less, allowance for loan losses	
Net loans	
Premises and equipment - net	
Accrued interest receivable	
Net deferred income tax assets	
Goodwill	
Core deposit intangible assets	
Prepaid expenses and other assets	
Total assets	
Liabilities	
Deposits	
Noninterest bearing	
Interest bearing	
Total deposits	
Short-term borrowings	
Long-term debt	
Accrued interest payable	
Accrued expenses and other liabilities	
Total liabilities	
Shareholders' equity	
Common stock - no par value; 12,000,000 shares authorized; issued and outstanding - 4,483,556 for 2007 and 4,441,220 for 2006	
Additional paid-in capital	
Retained earnings	
Accumulated other comprehensive income (loss)	
Total shareholders' equity	
Total liabilities and shareholders' equity	

See accompanying notes to unaudited consolidated financial statements.

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COMMUNITY BANKSHARES, INC.
Consolidated Statements of Income

	(Perio	
	Three Months	
	2007	2006
	(Dollars in t	
Interest and dividend income		
Loans, including fees	$ 8,628	$ 8,15
Interest bearing deposits with other banks	13	3
Debt securities	984	55
Dividends	46	4
Federal funds sold	80	31
Total interest and dividend income	9,751	9,10
Interest expense		
Deposits		
Time deposits $100M and over	1,080	93
Other deposits	2,692	2,23
Total interest expense on deposits	3,772	3,17
Short-term borrowings	187	8
Long-term debt	475	47
Total interest expense	4,434	3,73
Net interest income	5,317	5,36
Provision for loan losses	175	67
Net interest income after provision	5,142	4,69
Noninterest income		
Service charges on deposit accounts	939	86
Mortgage loan brokerage income	744	98
Net securities gains	-	
Gains on sales of other investments	712	
Other	372	21
Total noninterest income	2,767	2,06
Noninterest expenses		
Salaries and employee benefits	3,084	2,75
Premises and equipment	619	61
Advertising	138	9
Supplies	110	8
Other	1,650	1,08
Total noninterest expenses	5,601	4,63
Income before income taxes	2,308	2,12
Income tax expense	838	74

Net income	$ 1,470	$ 1,37
Per share		
Net income	$ 0.33	$ 0.3
Net income - diluted	0.32	0.3
Cash dividends declared	0.12	0.1

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY BANKSHARES, INC.
Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	R E
		(Dollars in thousands,		
Balance, January 1, 2006	4,404,303	$ 30,202	$ -	$
Comprehensive income				
Net income	-	-	-	
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of $75	-	-	-	
Reclassification adjustment for losses (gains) realized in income, net of income taxes of $0	-	-	-	
Total other comprehensive income (loss)	-	-	-	
Total comprehensive income	-	-	-	
Proceeds of sale of common stock	1,000	16	-	
Exercise of employee stock options	30,595	328	-	
Cash dividends declared, $.22 per share	-	-	-	
Balance, June 30, 2006	4,435,898	$ 30,546	$ -	$
Balance, January 1, 2007	4,441,220	$ 30,603	$ -	$
Comprehensive income				
Net income	-	-	-	
Unrealized holding gains and losses on available-for-sale securities arising				

during the period, net of income taxes of $174	-	-	-	
Reclassification adjustment for losses (gains) realized in income, net of income taxes of $1	-	-	-	
Total other comprehensive income (loss)	-	-	-	
Total comprehensive income	-	-	-	
Share-based compensation	-	-	27	
Proceeds of sale of common stock	500	8	-	
Exercise of employee stock options	41,836	406	-	
Cash dividends declared, $.24 per share	-	-	-	
Balance, June 30, 2007	4,483,556	$ 31,017	$ 27	$

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY BANKSHARES, INC.
Consolidated Statements of Cash Flows

Operating activities

Net income ....
Adjustments to reconcile net income to net
cash (used) provided by operating activities
Provision for loan losses ....
Depreciation and amortization ....
Net amortization of securities ....
Net securities gains ....
Net gains on sales of other investments ....
Proceeds of sales of loans held for sale ....
Originations of loans held for sale ....
Decrease (increase) in accrued interest receivable ....
Decrease (increase) in other assets ....
Gains on sales of foreclosed assets ....
(Decrease) increase in accrued interest payable ....
(Decrease) increase in other liabilities ....
Share-based compensation ....

Net cash provided (used) by operating activities ....

Investing activities
Net decrease (increase) in interest bearing deposits with other banks
Purchases of available-for-sale securities
Maturities, calls and paydowns of available-for-sale securities
Proceeds of sales of other investments
Purchases of other investments
Net increase in loans made to customers
Purchases of premises and equipment
Proceeds from sales and other disposals of fixed assets
Proceeds from sales of foreclosed assets

Net cash used by investing activities

Financing activities
Net decrease in deposits
Net increase in short-term borrowings
Proceeds from issuing long-term debt
Repayment of long-term debt
Exercise of employee stock options
Sale of common stock
Cash dividends paid

Net cash provided (used) by financing activities

Decrease in cash and cash equivalents
Cash and cash equivalents, beginning of period

Cash and cash equivalents, end of period

See accompanying notes to unaudited consolidated financial statements.

Supplemental Disclosures of Cash Flow Information

Cash payments for interest

Cash payments for income taxes

Supplemental Disclosures of Non-cash Activities
Transfers from loans receivable to foreclosed assets

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY BANKSHARES, INC.

Notes to Unaudited Consolidated Financial Statements

Accounting Principles - A summary of significant accounting policies and the audited financial statements for 2006 are included in Community Bankshares, Inc.'s (the "Company" or "CBI") Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission. Certain amounts in the 2006 financial statements have been reclassified to conform to the current presentation.

Management Opinion - The interim financial statements in this report are unaudited. In the opinion of management, all the adjustments necessary to present a fair statement of the results for the interim period have been made. Such adjustments are of a normal and recurring nature. The results of operations for any interim period are not necessarily indicative of the results to be expected for an entire year. These interim financial statements should be read in conjunction with the annual financial statements and notes thereto contained in the 2006 Annual Report on Form 10-K.

Nonperforming Loans - As of June 30, 2007, there were $5,157,000 in nonaccrual loans and no loans 90 or more days past due and still accruing interest.

Earnings Per Share - Basic earnings per share is computed by dividing net income applicable to common shares by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing applicable net income by the weighted average number of shares outstanding and any dilutive potential common shares and dilutive stock options. It is assumed that all dilutive stock options are exercised at the beginning of each period and that the proceeds are used to purchase shares of the Company's common stock at the average market price during the period. Net income per share and net income per share, assuming dilution, were computed as follows:

	(Unaudi	
	Period Ende	
	Three Months	
	2007	2006
	(Dollars in thousands, exce	
Net income per share, basic		
Numerator - net income	$ 1,470	$ 1,373
Denominator		
Weighted average common shares		
issued and outstanding	4,476,229	4,434,012
Net income per share, basic	$ .33	$ .31
Net income per share, assuming dilution		
Numerator - net income	$ 1,470	$ 1,373
Denominator		
Weighted average common shares		
issued and outstanding	4,476,229	4,434,012
Effect of dilutive stock options	49,123	69,624

Total shares	4,525,352	4,503,636
	==========	==========
Net income per share, assuming dilution	$ .32	$ .30
	==========	==========

Stock Based Compensation - Effective January 1, 2006, the Company began accounting for compensation expenses related to stock options granted to employees and directors under the recognition and measurement principles of Statement of Accounting Standards No. 123(R) "Share-Based Payment" ("SFAS 123(R)") using the modified prospective application method. The Company had previously elected to continue using the methodology of Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees," to account for compensation expenses related to stock-based compensation until the mandatory effective date for SFAS 123(R).

Options previously issued under the Company's plans had no intrinsic value at the grant date and no compensation cost was recognized in accordance with APB No. 25. Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation," required entities to provide pro forma disclosures of net income, and earnings per share, as if the fair value based method of accounting promulgated by that standard had been applied. Under the modified prospective application method of SFAS 123(R), the Company is required to apply SFAS 123(R) only to new awards and to awards modified, repurchased or cancelled after the required effective date. Compensation cost would also be recognized for the portions of previously granted awards outstanding which had not vested on the effective date. The Company had no such awards outstanding as of January 1, 2006 and the Company made no awards of stock options during 2006. During the first six months of 2007, stock-based compensation included in salaries and benefits totaled $27,000.

Variable Interest Entity - On March 8, 2004, CBI sponsored the creation of a Variable Interest Entity ("VIE"), SCB Capital Trust I (the "Trust"), and is the sole owner of the common securities issued by the Trust. On March 10, 2004, the Trust issued $10,000,000 in floating rate capital securities. The proceeds of this issuance, and the amount of CBI's capital investment, were used to acquire $10,310,000 principal amount of CBI's floating rate junior subordinated deferrable interest debt securities ("Debentures") due April 7, 2034, which securities, and the accrued interest thereon, now constitute the Trust's sole assets. The interest rate associated with the debt securities, and the distribution rate on the common securities of the Trust, was established

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initially at 3.91% and is adjustable quarterly at 3 month LIBOR plus 280 basis points. The index rate (LIBOR) may not be lower than 1.11%. CBI may defer interest payments on the Debentures for up to twenty consecutive quarters, but not beyond the stated maturity date of the Debentures. In the event that such interest payments are deferred by CBI, the Trust may defer distributions on the common securities. In such an event, CBI would be restricted in its ability to pay dividends on its common stock and to perform under other obligations that are not senior to the junior subordinated Debentures.

The Debentures are redeemable at par at the option of CBI, in whole or in part, on any interest payment date on or after April 7, 2009. Prior to that date, the Debentures are redeemable at 105% of par upon the occurrence of certain events that would have a negative effect on the Trust or that would cause it to be required to be registered as an investment company under the Investment Company Act of 1940 or that would cause trust preferred securities not to be eligible to be treated as Tier 1 capital by the Federal Reserve Board. Upon repayment or redemption of the Debentures, the Trust will use the proceeds of the transaction to redeem an equivalent amount of trust preferred securities and trust common securities. The Trust's obligations under the trust preferred securities are unconditionally guaranteed by CBI. In accordance with Financial Accounting Standards Board Interpretation 46(R), the Trust is not consolidated in the Company's financial statements.

The Company's investment in the Trust is carried at cost in other assets and the debentures are included in long-term debt in the consolidated balance sheet.

New Accounting Pronouncements

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities," ("SFAS No. 159" or the "Statement") which is effective for fiscal years beginning after November 15, 2007. Under the provisions of SFAS No. 159, entities may choose, but are not required, to measure many financial instruments and certain other items at their fair values, with changes in the fair values of those instruments reported in earnings. While most of the Statement's provisions apply only to entities that elect the fair value option, SFAS No. 159 also applies to all entities with trading and available-for-sale securities, such as the Company. The Company has not determined what effect, if any, the Statement will have on its future financial statements, other agreements, or planned or intended changes in business practices.

FORWARD LOOKING STATEMENTS

Statements included in this report which are not historical in nature are intended to be, and are hereby identified as `forward-looking statements' for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts. Such forward-looking statements may be identified, without limitation, by the use the of the words "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," and similar expressions. The Company's expectations, beliefs, estimates and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation, management's examination of historical operating trends,

data contained in the Company's records and other data available from third parties, but there can be no assurance that management's expectations, beliefs, estimates or projections will result or be achieved or accomplished. The Company cautions readers that forward-looking statements, including without limitation, those relating to the Company's recent and continuing expansion, its future business prospects, revenues, working capital, liquidity, capital needs, interest costs, income, and adequacy of the allowance for loan losses, are subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to several important factors herein identified, among others, and other risks and factors identified from time to time in the Company's reports filed with the Securities and Exchange Commission. The risks and uncertainties include, but are not limited to:

- the Company's growth and ability to maintain growth;

- governmental monetary and fiscal policies, as well as legislative and regulatory changes;
- the effects of interest rate changes on our level and composition of deposits, loan demand and the value of our loan collateral and securities;
- the effects of competition from other financial institutions operating in the Company's market areas and elsewhere, including institutions operating locally, regionally, nationally and internationally;
- failure of assumptions underlying the establishment of the allowance for loan losses, including the value of collateral securing loans; and
- loss of consumer confidence and economic disruptions resulting from terrorist activities.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

REFERENCES TO OUR WEBSITE ADDRESS

References to our website address throughout this Quarterly Report on Form 10-Q and in any documents incorporated into this Form 10-Q by reference are for informational purposes only, or to fulfill specific disclosure requirements of the Securities and Exchange Commission's rules or the American Stock Exchange listing standards. These references are not intended to, and do not, incorporate the contents of our website by reference into this Form 10-Q or the accompanying materials.

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

Critical Accounting Policies

CBI has adopted various accounting policies, which govern the application of accounting principles generally accepted in the United States of America in the preparation of CBI's financial statements. The significant accounting policies of CBI are described in detail in the notes to CBI's audited consolidated financial statements included in CBI's 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Certain accounting policies involve significant judgments and estimates by management, which have a material impact on the carrying value of certain assets and liabilities. Management considers such accounting policies to be critical accounting policies. The judgments and estimates used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and

assumptions made by management, actual results could differ from these judgments and estimates, which could have a material impact on the carrying values of assets and liabilities and the results of operations of CBI.

CBI is a holding company for a community bank and a mortgage company and, as a financial institution, believes the allowance for loan losses is a critical accounting policy that requires the most significant judgments and estimates used in preparation of its consolidated financial statements. Refer to the sections "Allowance for Loan Losses" and "Provision for Loan Losses" in the Annual Report on Form 10-K for 2006 for a detailed description of CBI's estimation process and methodology related to the allowance for loan losses.

CHANGES IN FINANCIAL CONDITION

During the six months ended June 30, 2007, loans receivable increased by $38,225,000, or 9.3%, over the amount as of December 31, 2006. The growth in this earning asset category was funded largely by reducing the amounts of liquid assets, most notably federal funds sold, but secondarily maturities of marketable securities available-for-sale. Most of this growth was attributable to new business development in the Midlands region.

The aggregate amounts of deposits and short-term and long-term borrowings increased by only $6,119,000, or 1.17%, from the December 31, 2006 amounts. During the second quarter of 2007, the Company obtained short-term brokered certificates of deposit totaling $7,213,000. These wholesale deposits were used primarily to fund loan growth. The overall level of deposits decreased by $3,376,000 or 0.7%. The level of deposits has been impacted by normal cash flow requirements of large local government customers. Management expects that the Company will continue to utilize this and similar sources of funding as needed to supplement the Company's marketing efforts for deposit accounts within its market areas. Given the current expectations for interest rates, it is expected that the rates paid by the Company to fund asset growth will increase in the near term.

RESULTS OF OPERATIONS

Earnings Performance

Three Months Ended June 30, 2007 and 2006

For the quarter ended June 30, 2007, CBI recorded consolidated net income of $1,470,000, compared with $1,373,000 for the comparable period of 2006. This represents an increase of $97,000 or 7.1%. Basic earnings per share and earnings per share, assuming dilution were $.33 and $.32, respectively, in the 2007 period, compared with $.31 and $.30, respectively, for the 2006 quarter.

Compared with the second quarter of 2006, operating results for the second quarter of 2007 were affected primarily by higher salaries and employee benefits and other noninterest expenses, lower mortgage loan brokerage income, non-recurring gains of $712,000 on the sale of other investments and a decrease of $500,000 in the amount provided for loan losses. Market interest rates, as well as the rates associated with the Company's interest earning assets and its interest-bearing liabilities were generally higher in the 2007 period reflecting the effects of Federal Reserve policies. The increase in rates paid for interest bearing liabilities was greater than the increased yield on earning assets resulting in a decrease in net interest margin.

Summary Income Sta

(Dollars in thous

For the Three Months Ended June 30,	2007	2006
Interest income	$9,751	$9,103
Interest expense	4,434	3,736
Net interest income	5,317	5,367
Provision for loan losses	175	675
Noninterest income	2,767	2,060
Noninterest expenses	5,601	4,632
Income tax expense	838	747
Net income	$1,470	$1,373

Six Months Ended June 30, 2007 and 2006

CBI's consolidated net income for the six months ended June 30, 2007 was positively affected by a $740,000 reduction in the amount provided for loan losses and gains of $712,000 on the disposition of other investments. However, lower mortgage loan brokerage income and increases in salaries and employee benefits, advertising, supplies and other expenses more than offset those positive effects.

	Summary Income	
	(Dollars in t	
For the Six Months Ended June 30,	2007	2006
Interest income	$19,184	$17,716
Interest expense	8,625	7,122
Net interest income	10,559	10,594
Provision for loan losses	550	1,290
Noninterest income	4,592	3,994
Noninterest expenses	10,715	9,259
Income tax expense	1,411	1,465
Net income	$ 2,475	$ 2,574

Net Interest Income

Net interest income is the amount of interest income earned on interest earning assets (primarily loans, securities, interest bearing deposits with other banks, and federal funds sold), less the interest expense incurred on interest bearing liabilities (interest bearing deposits and other borrowings), and is the principal source of the Company's earnings. Net interest income is affected by the level of interest rates, volume and mix of interest earning assets and interest bearing liabilities and the relative funding of those assets.

Three Months Ended June 30, 2007 and 2006

Net interest income for the three months ended June 30, 2007 was $5,317,000, a decrease of $50,000, or 0.9%, from the amount reported for the second quarter of 2006. Interest income and interest expense for the 2007 quarter were both significantly higher than during the same period of 2006, due to increases in the related balance sheet items and increases in interest rates earned on, or paid for, those items. Basic earnings per share and earnings per share, assuming dilution were $0.33and $.32, respectively, in the 2007 period, compared with $.31 and $.30, respectively, for the 2006 quarter.

The average rate earned on loans, including loans held for sale, was 7.81% and 7.54% for the second quarters of 2007 and 2006, respectively. The average yield on earning assets was 7.30% for the second quarter of 2007, compared with 6.99% for the second quarter of 2006. The average cost of time deposits increased to 4.68% for the second quarter of 2007, compared with 4.03% for the same period of 2006. The average cost of all interest-bearing liabilities was 3.89% for the 2007 quarter and 3.40% for the same period of 2006. Accordingly, the interest rate spread (interest earning assets yield minus the rate paid for interest-bearing liabilities) for the 2007 second quarter narrowed to 3.41%, or 18 basis points lower than for the same period of 2006, and net yield on earning assets (net interest income divided by average interest earning assets) for the 2007 quarter was 3.98%, or 14 basis points lower than for the same period of 2006.

Average amounts of interest earning assets were $13,583,000 higher in the 2007 period than in the 2006 period and the average amounts of interest-bearing liabilities were $15,924,000 higher in the 2007 three month period. During the second quarter of 2007, the Company was more reliant on interest-bearing liabilities to fund earning assets than it was during the 2006 second quarter.

Average Balances,
Three Months En

	2007		
	Average Balances	Interest Income/ Expense	Yields/ Rates(1)
			(Dollars in
Assets			
Interest earning deposits	$ 1,008	$ 13	5.17%
Investment securities - taxable	80,597	988	4.92%
Investment securities - tax exempt (2)	4,645	42	3.63%
Federal funds sold	6,452	80	4.97%
Loans, including loans held for sale (2)(3)	443,325	8,628	7.81%
Total interest earning assets	536,027	9,751	7.30%
Cash and due from banks	16,984		
Allowance for loan losses	(6,045)		
Premises and equipment, net	8,004		
Intangible assets	5,907		
Other assets	11,967		

Total assets	$ 572,844		
Liabilities and shareholders' equity			
Interest bearing deposits			
Savings	$ 89,660	$ 627	2.80%
Interest bearing transaction accounts	72,862	273	1.50%
Time deposits	246,329	2,872	4.68%
Total interest bearing deposits	408,851	3,772	3.70%
Short-term borrowings	18,056	187	4.15%
Long-term debt	29,701	475	6.41%
Total interest bearing liabilities	456,608	4,434	3.89%
Noninterest bearing demand deposits	59,693		
Other liabilities	2,307		
Shareholders' equity	54,236		
Total liabilities and shareholders' equity	$ 572,844		
Interest rate spread			3.41%
Net interest income and net yield on earning assets		$ 5,317	3.98%

(1) Yields and rates are annualized.
(2) Yields on tax-exempt securities and loans have not been stated on a tax-equivalent basis.
(3) Nonaccruing loans of $5,157,000 are included in the average balances and income from such loans is recognized on a cash basis.

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Six Months Ended June 30, 2007 and 2006

Net interest income for the six months ended June 30, 2007 decreased by $35,000, or 0.3% from the amount for the same period of 2006. Both interest income and interest expense increased significantly in the 2007 period due to higher levels of market interest rates and, to a lesser extent, to higher amounts of interest earning assets and interest-bearing liabilities.

For the 2007 year-to-date period, the interest rate spread and net yield on earning assets both decreased as compared with the same period of 2006. Interest rate spread decreased by 11 basis points and net yield on earning assets decreased by eight basis points. These decreases resulted primarily from higher rates paid on interest-bearing liabilities, which increased slightly more than rates earned on earning assets. In particular, the Company's costs of funding increased primarily due to higher rates paid on larger amounts of certificates of deposit and increased amounts of short-term borrowings while earnings on assets increased due to a shift from holding highly liquid but low-yielding federal funds sold to higher-yielding taxable investment securities and loans. The Company's average loans outstanding for the 2007 six month period is not much changed from the 2006 six-month average due to the sale of $8,162,000 of loans during the fourth quarter of 2006.

	Average Balance Six Months		
	2007		
	Average Balances	Interest Income/ Expense	Yields/ Rates(1)
	(Do		
Assets			
Interest earning deposits	$ 1,773	$ 46	5.23%
Investment securities - taxable	82,648	2,008	4.90%
Investment securities - tax exempt (2)	4,697	85	3.65%
Federal funds sold	10,282	260	5.10%
Loans, including loans held for sale (2)(3)	433,533	16,785	7.81%
Total interest earning assets	532,933	19,184	7.26%
Cash and due from banks	17,156		
Allowance for loan losses	(5,458)		
Premises and equipment, net	8,694		
Intangible assets	6,849		
Other assets	9,745		
Total assets	$ 569,919		
Liabilities and shareholders' equity			
Interest bearing deposits			
Savings	$ 92,886	$ 1,299	2.82%
Interest bearing transaction accounts	74,945	532	1.43%
Time deposits	243,963	5,579	4.61%
Total interest bearing deposits	411,794	7,410	3.63%
Short-term borrowings	14,958	303	4.08%
Long-term debt	27,998	912	6.57%
Total interest bearing liabilities	454,750	8,625	3.82%
Noninterest bearing demand deposits	59,382		
Other liabilities	2,065		
Shareholders' equity	53,722		
Total liabilities and shareholders' equity	$ 569,919		
Interest rate spread			3.44%
Net interest income and net yield on earning assets		$ 10,559	4.00%

(1) Yields and rates are annualized.
(2) Yields on tax-exempt securities and loans have not been stated on a tax-equivalent basis.
(3) Nonaccruing loans of $5,157,000 are included in the average balances and income from such loans is recognized on a cash basis.

Provision and Allowance for Loan Losses

The provision for loan losses for the 2007 three month period was $175,000, a decrease of $500,000, or 74.1%, from $675,000 for the same period of 2006. The provision for loan losses decreased to $550,000 for the 2007 six month

period from $1,290,000 for the 2006 six month period, a decrease of $740,000 or 57.4%.

The activity in the allowance for loan losses is summarized in the following table:

	Six Months Ended June 30, 2007
	(Do
Allowance at beginning of period	$ 4,662
Provision for loan losses	550
Net (charge-offs) or recoveries	521
Allowance at end of period	$ 5,733
Allowance as a percentage of loans outstanding	1.28%
Loans at end of period	$ 447,945

Following is a summary of non-performing loans as of June 30, 2007 and December 31, 2006:

	June 30, 2007	December 31, 2006
	(Dollars in thousands)	
Non-performing loans		
Nonaccrual loans	$ 5,157	$4,714
Past due 90 days or more and still accruing	-	232
Total	$ 5,157	$4,946
Nonperforming loans as a percentage of:		
Loans outstanding	1.15%	1.21%
Allowance for loan losses	89.95%	106.09%

The following table shows quarterly changes in nonperforming and potential problem loans since December 31, 2005.

	Nonaccrual Loans	90 Days or More Past Due and Still Accruing	Total Nonperforming Loans	Percentage of Total Loans
			(Dollars in thousands)	
December 31, 2005	11,651	729	12,380	2.99%
Net change	3,128	949	4,077	
March 31, 2006	14,779	1,678	16,457	3.94%
Net change	(3,628)	(1,476)	(5,104)	
June 30, 2006	11,151	202	11,353	2.71%
Net change	(2,483)	175	(2,308)	
September 30, 2006	8,668	377	9,045	2.19%
Net change	(3,954)	(145)	(4,099)	
December 31, 2006	4,714	232	4,946	1.21%
Net change	1,612	(65)	1,547	
March 31, 2007	6,326	167	6,493	1.53%
Net change	(1,169)	(167)	(1,336)	
June 30, 2007	$ 5,157	$ -	$ 5,157	1.15%

During the second quarter of 2007, nonperforming loans decreased by $1,336,000 while potential problem loans increased by $385,000. The major component of the improvement in nonperforming loans was the transfer of a single $750,000 commercial credit to other real estate owned. The Company anticipates an auction of that property, which includes real and personal business property, during the third quarter. At June 30, 2007 other real estate owned totaled $1,176,000, compared to $108,000 for the comparable period in 2006.

Management will continue to monitor the levels of non-performing loans and address the weaknesses in these credits to enhance the ultimate collection or recovery of these assets. Management considers the levels and trends in non-performing assets and potential problem loans in determining how the provision and allowance for loan losses is estimated and adjusted. In the opinion of management, the Company's allowance for loan losses at June 30, 2007 is adequate to provide for losses that may be inherent in the loan portfolio.

Noninterest Income

Noninterest income for the 2007 second quarter increased $707,000, or 34.3%, over the $2,060,000 reported for the same 2006 period. The Company realized a one-time $712,000 gain on the sale of other investments during the 2007 period, primarily from the sale of surplus stock of a correspondent bank which resulted from the merger of the Company's four bank subsidiaries into one bank late in 2006. Mortgage loan brokerage income was significantly lower during the 2007 period due to lower volumes of loan originations, consistent with the overall slowing of the real estate market.

For the six months ended June 30, 2007, noninterest income increased $598,000, or 15.0%, over noninterest income for the first six months of 2006. Again, this increase was the result of the one-time gain from the sale of other investments. Mortgage loan brokerage income for the first six months of 2007 decreased $425,000 compared with the same period of 2006, consistent with the overall slowing of the real estate market.

Noninterest Expenses

Noninterest expenses for the second quarter of 2007 were $969,000, or 20.9%, higher than the amounts reported for the same period of 2006. Salaries and employee benefits expenses were $331,000, or 12.0%, higher in the 2007 period, due to the hiring of several new loan officers and additions to executive management. Increases in certain other expense categories, such as advertising and supplies, are primarily the after-effects of the consolidation of the Company's former four-bank structure late in 2006.

Noninterest expenses for the first six months of 2007 were $1,456,000, or 15.7%, more than for the same period of 2006. Salaries and employee benefits for the 2007 six month period were $686,000, or 12.9%, more than for the same period of 2006. This expense increased due to new hires noted above and normal periodic wage and salary adjustments. Other factors contributing to the increased non interest expenses were consulting costs related to preparation of a strategic plan, recourse provision associated with secondary market loans and a $240,000 deposit related fraud loss.

Income Taxes

Income tax expense was $91,000 higher in the 2007 second quarter than for the 2006 period, as a result of higher taxable income before taxes. Income tax expense for the 2007 six month period was $54,000 less than for the same period of 2006 due to lower net income before taxes.

LIQUIDITY

Liquidity is the ability to meet current and future obligations through liquidation or maturity of existing assets or the acquisition of additional liabilities. Adequate liquidity is necessary to meet the requirements of customers for loans and deposit withdrawals in a timely and economical manner. The most manageable sources of liquidity are composed of liabilities, with the primary focus of liquidity management being the ability to attract deposits within CBI's market areas. Individual and commercial deposits are the primary source of funds for credit activities, along with long-term borrowings from the Federal Home Loan Bank of Atlanta and the proceeds of issuing $10,000,000 of subordinated debentures. Cash and amounts due from banks and federal funds sold

are CBI's primary sources of asset liquidity. These funds provide a cushion against short-term fluctuation in cash flow from both loans and deposits. Securities available-for-sale are CBI's principal source of secondary asset liquidity. However, the availability of this source is limited by pledging commitments for public deposits and securities sold under agreements to repurchase, and is influenced by market conditions.

Total deposits as of June 30, 2007 were $480,245,000, a decrease of $3,376,000, or 0.7%, from the amount as of December 31, 2006. During the first six months of 2007, there was a notable movement of funds from noninterest bearing demand deposit, interest-bearing transaction and savings accounts into time deposit accounts. The Company purchased $7,213,000 of short-term brokered certificates of deposit during the 2007 second quarter to supplement deposits obtained from the local markets. Short-term borrowings, particularly repurchase agreement accounts, increased significantly during the first six months of 2007, primarily due to attractive rates paid for such funds. As of June 30, 2007 the loan to deposit ratio, excluding loans held for sale, was 93.3%, compared with 84.7% at December 31, 2006 and 91.3% at June 30, 2006.

Management believes CBI's liquidity sources are adequate to meet its current and projected operating needs.

CAPITAL RESOURCES

CBI and its bank subsidiary are subject to regulatory risk-based capital adequacy standards. Under these standards, bank holding companies and banks are required to maintain certain minimum ratios of capital to risk-weighted assets and average total assets. Under the provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991, federal bank regulatory authorities are required to implement prescribed "prompt corrective actions" upon the deterioration of the capital position of a bank. If the capital position of an affected institution were to fall below a certain level, increasingly stringent regulatory corrective actions would be mandated.

The June 30, 2007 risk-based capital ratios for CBI and the bank are presented in the following table, compared with the "well capitalized" and minimum ratios under the regulatory definitions and guidelines:

	June 30, 2007		
	Tier 1	Total Capital	Leverage
Community Bankshares, Inc.	13.06%	14.31%	10.26%
Community Resource Bank	11.44%	12.69%	8.95%
Minimum "well capitalized" requirement	6.00%	10.00%	6.00%
Minimum requirement	4.00%	8.00%	5.00%

As shown in the table above, each of the capital ratios exceeds the regulatory requirement to be considered "well capitalized." In the opinion of management, the current and projected capital positions of CBI and the bank are adequate.

OFF-BALANCE-SHEET ARRANGEMENTS

In the normal course of business, CBI engages in transactions that, in accordance with generally accepted accounting principles, are not recorded in the financial statements (generally commitments to extend credit) or are recorded in amounts that differ from their notional amounts (generally derivatives). These transactions involve elements of credit, interest rate and liquidity risk of varying degrees.

Variable Interest Entity

As discussed under "Capital Resources" and in the notes to unaudited consolidated financial statements under "Variable Interest Entity," as of June 30, 2007, CBI held an equity interest in, and guarantees the liabilities of, a non-consolidated variable interest entity, SCB Capital Trust I.

Commitments

CBI is party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve varying degrees of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. Exposure to credit loss is represented by the contractual, or notional, amounts of these commitments. The same credit policies are used in making commitments as for on-balance-sheet instruments.

The following table sets forth the contractual amounts of commitments which represent credit risk:

	June 30, 2007
	(Dollars in thousands)
Loan commitments	$ 61,545
Standby letters of credit	2,542

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by management upon extension of credit, is based on management's credit evaluation of the counter-party. Collateral held varies but may include personal residences, accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support private borrowing arrangements. All letters of credit are short-term guarantees. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Generally, collateral supporting those commitments is held if deemed necessary. Since many of the standby letters of credit are expected to expire without being drawn upon, the total letter of credit amounts do not necessarily represent future cash requirements.

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The Company entered into a contract for the construction of a new branch office to be located on Clemson Road in the northeast Columbia, SC area. Construction was begun during the second quarter of 2007 and the office is expected to open for business around the beginning of 2008. Estimated construction costs total $830,000.

Derivative Financial Instruments

In April, 2003, the Financial Accounting Standards Board issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." Among other requirements, this Statement provides that loan commitment contracts entered into or modified after June 30, 2003 that relate to the origination of mortgage loans that will be held for sale shall be accounted for as derivative instruments by the issuer of the loan commitment. In March, 2004, the SEC issued its Staff Accounting Bulletin No 105 "Application of Accounting Principles to Loan Commitments," which resulted in no changes in CBI's accounting for such commitments. CBI issues mortgage loan rate lock commitments to potential borrowers to facilitate its origination of home mortgage loans that are intended to be sold. Between the time that CBI issues its commitments and the time that the loans close and are sold, CBI is subject to variability in the selling prices related to those commitments due to changes in market rates of interest. However, CBI offsets this variability through the use of so-called "forward sales contracts" to investors in the secondary market. Under these arrangements, an investor agrees to purchase the closed loans at a predetermined price. CBI generally enters into such forward sales contracts at the same time that rate lock commitments are issued. These arrangements effectively insulate CBI from the effects of changes in interest rates during the time the commitments are outstanding, but the arrangements do not qualify as fair value hedges. These derivative financial instruments are carried in the balance sheet at estimated fair value and changes in the estimated fair values of these derivatives are recorded in the statement of income in net gains or losses on loans held for sale.

Derivative financial instruments are written in amounts referred to as notional amounts. Notional amounts only provide the basis for calculating payments between counterparties and do not represent amounts to be exchanged between parties or a measure of financial risk. The following table includes the notional principal amounts of rate lock commitments and forward sales contracts as of June 30, 2007, and the estimated fair values of those financial instruments included in other assets and liabilities in the balance sheet as of that date.

	June 30, 2007	
	Notional Amount	Estimated Fair Value Asset (Liability)
	(Dollars in thousands)	
Rate lock commitments to potential borrowers to originate mortgage loans to be held for sale	$9,877	$ 4
Forward sales contracts with investors of mortgage loans to be held for sale	9,877	(4)

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. CBI's market risk arises principally from interest rate risk inherent in its lending, deposit and borrowing activities. Management actively monitors and manages its interest rate risk exposure. Although CBI manages other risks, such as credit quality and liquidity risk in the normal course of business, management considers interest rate risk to be its most significant market risk and this risk could potentially have the largest material effect on CBI's financial condition and results of operations. Other types of market risks such as foreign currency exchange risk and commodity price risk do not arise in the normal course of community banking activities.

CBI's Asset/Liability Committee uses a simulation model to assist in achieving consistent growth in net interest income while managing interest rate risk. According to the model, as of June 30, 2007, CBI is positioned so that net interest income would decrease $100,000 and net income would decrease $64,000 in the next twelve months if interest rates rose 100 basis points. Conversely, net interest income would increase $100,000 and net income would increase $64,000 in the next twelve months if interest rates declined 100 basis points. Computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates and loan prepayment, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions CBI and its customers could undertake in response to changes in interest rates.

As of June 30, 2007 there was no significant change from the interest rate sensitivity analysis for the various changes in interest rates calculated as of December 31, 2006. The foregoing disclosures related to the market risk of CBI should be read in connection with Management's Discussion and Analysis of Financial Position and Results of Operations included in the 2006 Annual Report on Form 10-K.

Item 4T. Controls and Procedures

Based on the evaluation required by 17 C.F.R. Section 240.13a-15(b) or 240.15d-15(b) of the Company's disclosure controls and procedures (as defined in 17 C.F.R. Sections 240.13a-15(e) or 240.15d-15(e)), the Company's chief executive officer and chief financial officer concluded that such controls and procedures, as of the end of the period covered by this quarterly report, were effective.

There has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II--OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

On Monday, May 15, 2007, the shareholders of Community Bankshares, Inc. held their regular annual meeting. At the meeting, two matters were submitted to a vote with results as follows:

1. Election of four directors to hold office for three year terms and one director to hold office for a two year term:

SHARES VOTED

DIRECTORS	FOR	AGAINST OR AUTHORITY WITHHELD
Three-Year Terms		
Samuel L. Erwin	3,190,743	54,117
Anna O. Dantzler	3,177,916	66,944
Richard L. Haveksot.	3,170,888	73,972
Samuel F. Reid, Jr.	3,167,329	77,531
Two Year Term		
Charles P. Thompson, Jr	3,189,352	55,508

The following directors continue to serve until the expiration of their terms at the annual meetings to be held in the years indicated and were not voted on at the 2007 annual meeting: Thomas B. Edmunds - 2008; Martha Rose C. Carson - 2008; J. M. Guthrie - 2008; Wm. Reynolds Williams - 2008; Charles E. Fienning - 2008; E. J. Ayers, Jr. - 2009; Alvis J. Bynum - 2009; and J. V. Nicholson, Jr. - 2009.

2. Approval of the Community Bankshares, Inc. 2007 Equity Plan

SHARES VOTED	
FOR	AGAINST OR AUTHORITY WITHHELD
2,080,782	162,342

At a meeting on July 30, 2007, the Board of Directors of Community Bankshares, Inc. adopted two amendments to the 2007 Equity Plan. Section 5.4(c) of the 2007 Equity Plan, which provides for cashless exercise of options issued under the 2007 Plan, was amended to clarify that cashless exercise would only be allowed if specifically permitted by the Board of Directors in its discretion. A new Section 5.7 to the plan was adopted, which provides that, during the lifetime of the employee, an option shall be exercisable only by the employee, and no option is assignable or transferable by an employee except by will or by the laws of descent and distribution.

The Board had the authority under Section 12.2(a) of the 2007 Equity Plan to adopt the foregoing amendments to the plan without shareholder approval. Furthermore, no awards had been granted under the 2007 Plan prior to the amendments, so no consent of any participant to these amendments was required under Section 12.2 of the 2007 Plan.

Item 6. Exhibits

Exhibits 10 Community Bankshares, Inc. 2007 Equity Plan (as amended July 30, 2007)

31-1 Rule 13a-14(a)/15d-14(a) Certification of principal executive officer

31-2 Rule 13a-14(a)/15d-14(a) Certification of principal financial officer

32 Certifications Pursuant to 18 U.S.C. Section 1350

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.

DATED: August 13, 2007

COMMUNITY BANKSHARES, INC.

By: s/ Samuel L. Erwin

Samuel L. Erwin
Chief Executive Officer

By: s/ William W. Traynham

William W. Traynham
President and Chief Financial Officer
(Principal Accounting Officer)

EXHIBIT INDEX

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