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

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 March 31, 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 a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, no par or stated value, 4,475,232 shares outstanding on May 2, 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 ....
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Securities held-to-maturity (estimated fair value $1,750 for 2007 and $1,750 for 2006) ....
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Less, allowance for loan losses ....

Net loans ....
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Accrued interest receivable ....
Net deferred income tax assets ....
Goodwill ....
Core deposit intangible assets ....
Prepaid expenses and other assets ....

Total assets ....

Liabilities

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Interest-bearing ....

Total deposits ....
Short-term borrowings ....
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Accrued interest payable ....
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Shareholders' equity

Common stock - no par value; 12,000,000 shares authorized; issued and outstanding - 4,468,502 for 2007 and 4,426,648 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.

COMMUNITY BANKSHARES, INC.

Consolidated Statements of Income

Interest and dividend income

Loans, including fees

Interest-bearing deposits with other banks

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Dividends

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Total interest and dividend income

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Time deposits $100M and over

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Mortgage brokerage income

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Other

Total noninterest income

Noninterest expenses

Salaries and employee benefits

Premises and equipment

Advertising

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Other

Total noninterest expenses

Income before income taxes

Income tax expense

Net income

Per share

Net income	
Net income - diluted	
Cash dividends declared	

See accompanying notes to unaudited consolidated financial statements.

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

(Unaudited)

	Common Stock		Additional	R
	Number of Shares	Amount	Paid-in Capital	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 $25	-	-	-	
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	21,345	239	-	
Cash dividends declared, $.11 per share	-	-	-	
Balance, March 31, 2006	4,426,648	$ 30,457	$ -	$
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 $48	-	-	-	
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	26,782	232	-	
Cash dividends declared, $.12 per share	-	-	-	
Balance, March 31, 2007	4,468,502	$ 30,843	$ 27	$

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY BANKSHARES, INC.
Consolidated Statements of Cash Flows

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cash provided by operating activities
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Net securities gains ....
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Originations of loans held for sale ....
Losses on sales of other real estate ....
(Increase) decrease in accrued interest receivable ....
Decrease in other assets ....
(Decrease) increase in accrued interest payable ....
Decrease (increase) in other liabilities ....
Share-based compensation ....

Net cash provided by operating activities ....

Investing activities
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Maturities, calls and paydowns of available-for-sale securities ....

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Purchases of other investments	
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Purchases of premises and equipment	
Proceeds from sales of foreclosed assets	
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Financing activities	
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Net (decrease) increase in short-term borrowings	
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Repayment of long-term debt	
Proceeds from sale of stock	
Exercise of employee stock options	
Cash dividends paid	
Net cash used by financing activities	
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Cash and cash equivalents, beginning of period	
Cash and cash equivalents, end of period	
Supplemental disclosures of cash flow information	
Cash payments for interest	
Cash payments for income taxes	
Supplemental disclosures of non-cash investing activities	
Transfers of loans receivable to other real estate	

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.

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 March 31, 2007, there were $6,326,000 in nonaccrual loans and $167,000 in 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:

Net income per share, basic

Numerator - net income ....

Denominator

Weighted average common shares issued and outstanding ....

Net income per share, basic ....

Net income per share, assuming dilution

Numerator - net income ....

Denominator

Weighted average common shares issued and outstanding ....

Effect of dilutive stock options ....

Total shares ....

Net income per share, assuming dilution ....

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 quarter of 2007, stock-based compensation included in salaries and employee benefits totaled $27,000.

Variable Interest Entities - On March 8, 2004, CBI sponsored the creation of a Delaware trust, 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 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 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 the 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.

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.

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

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.

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.

RESULTS OF OPERATIONS

Changes in Financial Condition

During the three months ended March 31, 2007, deposits decreased by $13,851,000, or 2.9%, due to a net seasonal outflow of deposits related to local government tax receipts and to the Company's deliberate actions to reduce certain high cost time deposits. Loans increased by $14,608,000, or 3.6%, during the period. Real estate mortgage and construction loans increased by $20,031,000, or 6.8%, during the 2007 period. Funding for these changes was provided primarily by decreasing the Company's cash and federal funds sold positions and by allowing some maturities, calls and paydowns of the Company's investments in securities available-for-sale to occur without reinvestment. In addition, the Company increased long-term debt by $3,497,000 during the first quarter of 2007.

Earnings Performance

For the quarter ended March 31, 2007, CBI earned consolidated net income of $1,005,000, compared with $1,201,000 for the comparable period of 2006, a decrease of $196,000 or 16.3%. Basic earnings per share were $.23 in the 2007 period, compared with $.27 for the 2006 quarter. Diluted earnings per share were $.22 for the 2007 period and $.27 for the 2006 period.

Net interest income for the first quarter of 2007 was substantially unchanged from the amount reported for the first quarter of 2006. The positive effects of higher average amounts of securities and higher rates earned on loans and securities in 2007 were substantially offset by higher interest expenses resulting primarily from higher rates paid for interest bearing deposit accounts. The Federal Reserve's Open Market Committee (the "Committee") continued to hold steady the federal funds rates throughout the 2007 first quarter. At present, market interest rates for shorter-term financial instruments generally exceed the rates for longer-term financial instruments. Interest rates have generally increased for the Company's pre-existing variable rate loans and the Company is currently charging higher rates for new and renewed loans. The Company also realized higher rates for federal funds sold and new investments in securities during the 2007 first quarter. The Company's funding sources primarily are short-term deposits, and rates associated with those sources, as well as any short-term borrowings and long-term debt incurred during the 2007 period, have also been subject to the increases. The interest rate spread (yield earned on average earning assets less the rate paid on average interest bearing liabilities) for the first three months of 2007 was 6 basis points lower than for the same period of 2006.

The results for the 2007 period were affected favorably by the regular re-evaluation of the Company's allowance for loan losses, which resulted in a decrease of $240,000 in the provision for loan losses compared with the same period of 2006.

Noninterest income for the 2007 first quarter was $109,000 less than for the same period of 2006 primarily due to a decrease of $182,000 in mortgage brokerage income. Service charges assessed on deposit accounts and for other services increased by $59,000 in the 2007 period over the prior year amount.

Noninterest expense for the first quarter of 2007 was $487,000 more than for the same period of 2006 primarily due to increases of $355,000 in salaries and employee benefits and $121,000 in advertising and supplies expenses, partially offset by a $62,000 decrease in expenses for premises and equipment during the 2007 period.

Much of the increase in salaries and employee benefits is attributable to management's decision to augment its lending staff. During the past twelve months, the Bank has added six highly experienced lending officers to its staff, only one of whom was a replacement. However, largely as a result of the efforts of the new lending officers, the loan portfolio increased 3.6%, or $14.6 million, during the first quarter of 2007, which is expected to have a positive impact on earnings in future periods.

Summary Income Stat

(Dollars in thousa

For the Three Months Ended March 31,	2007	2006	Do
Interest income	$9,433	$8,613	
Interest expense	4,191	3,386	
Net interest income	5,242	5,227	
Provision for loan losses	375	615	
Noninterest income	1,825	1,934	
Noninterest expenses	5,114	4,627	
Income tax expense	573	718	
Net income	$1,005	$1,201	

Net Interest Income

Net interest income is the amount of interest income earned on interest earning assets (primarily loans, securities, interest bearing deposits in 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.

Interest income increased by $820,000, or 9.5%, in the 2007 first quarter compared with the same 2006 period. Interest income from loans increased from $7,683,000 in the 2006 period to $8,157,000 in the 2007 period primarily due to higher rates charged on loans outstanding. The Company sold approximately $8,162,000 of loans during the fourth quarter of 2006 and gross charge-offs of loans during 2006 totaled $11,365,000. These events led to a lower amount of average loans in the first quarter of 2007 compared with the first quarter of 2006 despite a $14,608,000 increase in the period-ending amount of loans compared with the ending amount as of December 31, 2006. The amount of interest earned on investment securities in the first quarter of 2007 was $476,000, or 81.1%, higher than in the 2006 period due to both increased average volumes and higher yields earned. Interest earned on federal funds sold decreased by $143,000, or 44.3%, from the amount for the first quarter of 2006 primarily due to a decrease of $15,437,000, or 52.2%, in the average amount of such funds outstanding during the period.

Interest expense for deposits increased from $2,803,000 for the 2006 period to $3,638,000 for the 2007 period primarily due to higher rates associated with all categories of interest bearing deposits. The average rate paid for all interest bearing deposits was 3.56% during the 2007 period, compared with 2.87% during the 2006 period. Larger average amounts of interest-bearing deposits, especially savings and time deposits, also contributed to this increased interest expense. During the first three months of 2007, the Company reduced rates offered for certain new time deposit accounts. These actions are expected to reduce the volume of new interest bearing deposits and reduce the rate of future increases in deposit interest expenses.

In the first quarter of 2007, interest expense for long-term debt, which includes junior subordinated debentures and advances obtained from the Federal Home Loan Bank of Atlanta, totaled $437,000, a decrease of $45,000, or 9.3%, from the amount for the same period of 2006. Although average amounts of long-term debt outstanding decreased by $6,435,000, or 19.7%, the interest rate paid for such borrowings increased by 76 basis points.

Interest expenses for short-term borrowings in the first quarter of 2007 were $116,000, an increase of $15,000, or 14.9%, over the amount for the same period of 2006, as a result of an increase of $1,550,000, or 15.1%, in the average amount of those borrowings.

	Average Balanc		
	Three Month		
	2007		
	Average Balances	Interest Income / Expense	Yields Rates (
			(Dollars
Assets			
Interest earning deposits	$ 2,547	$ 33	5.25%
Investment securities - taxable	84,722	1,020	4.88%
Investment securities - tax exempt (2)	4,750	43	3.67%
Federal funds sold	14,155	180	5.16%
Loans, including loans held for sale (2)(3)	423,632	8,157	7.81%
Total interest earning assets	529,806	9,433	7.22%
Cash and due from banks	17,330		
Allowance for loan losses	(4,864)		
Premises and equipment	10,313		
Intangible assets	6,880		
Other assets	7,497		
Total assets	$ 566,962		
Liabilities and shareholders' equity			
Interest bearing deposits			
Interest bearing transaction accounts	$ 77,051	$ 259	1.36%
Savings	96,148	672	2.83%
Time deposits	241,571	2,707	4.54%
Total interest bearing deposits	414,770	3,638	3.56%
Short-term borrowings	11,826	116	3.98%
Long-term debt	26,276	437	6.74%
Total interest bearing liabilities	452,872	4,191	3.75%
Noninterest bearing demand deposits	59,068		
Other liabilities	1,820		
Shareholders' equity	53,202		
Total liabilities and shareholders' equity	$ 566,962		
Interest rate spread			3.47%
Net interest income and net yield on earning assets		$ 5,242	4.01%

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(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 are included in the loan balance and income from such loans is recognized on a cash basis. The amounts of such loans and income are not material.

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Provision and Allowance for Loan Losses

The provision for loan losses for the 2007 first quarter was $375,000, a decrease of $240,000, or 39.0%, from the $615,000 provided for the same period of 2006. This decrease was due primarily to a decrease in net charge-offs during the 2007 first quarter, as discussed below.

Net charge-offs during the three months ended March 31, 2007 were $76,000, compared with $1,162,000 for the same period of 2006. The allowance for loan losses as of March 31, 2007 was 1.17% of loans outstanding, compared with 1.14% as of December 31, 2006 and 2.66% as of March 31, 2006.

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

	Three Months Ended March 31, 2007
	(Doll
Allowance at beginning of period	$ 4,662
Provision for loan losses	375
Net charge-offs	(76)
Allowance at end of period	$ 4,961
Allowance as a percentage of loans outstanding	1.17%
Loans at end of period	$ 424,328

Non-performing loans, consisting of nonaccrual loans and loans 90 or more days past due which are still accruing interest, totaled $6,493,000 as of March 31, 2007, compared with $4,946,000 as of December 31, 2006, an increase of $1,547,000 or 31.3%. The majority of non-performing loans as of March 31, 2007 were secured by commercial real estate and other collateral. Accordingly, the amount of such non-performing loans does not reflect the amount of probable loss that management estimates will be incurred with respect to those loans. The amount of such estimated loss is included in the allowance for loan losses.

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

	March 31, 2007	December 31, 2006
	(Dollars in thousands)	

Non-performing loans		
Nonaccrual loans	$6,326	$4,714
Past due 90 days or more and still accruing ...	167	232
Total	$6,493	$4,946
Non-performing loans as a percentage of:		
Loans outstanding	1.53%	1.21%
Allowance for loan losses	130.88%	106.09%

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The following table shows quarterly changes in non-performing and potential problem loans since December 31, 2004. Potential problem loans are loans as to which information about the borrowers' possible credit problems causes management to have serious doubts about their ability to comply with current repayment terms, which may result in subsequent classification of such loans as non-performing loans.

	Nonaccrual Loans	90 Days or More Past Due and Still Accruing	Total Nonperforming Loans	Percentag of Total Loans
			(Dollars in thousands)	
December 31, 2004	$ 4,941	$ 137	$ 5,078	1.29%
Net change	118	215	333	
March 31, 2005	5,059	352	5,411	1.33%
Net change	200	(9)	191	
June 30, 2005	5,259	343	5,602	1.35%
Net change	4,954	74	5,028	
September 30, 2005	10,213	417	10,630	2.57%
Net change	1,438	312	1,750	
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%

During the first quarter of 2007, nonaccrual loans increased by $1,612,000, primarily as a result of the addition of a $1 million real estate secured acquisition and development loan. Other elements of the increase were attributable to a small number of real estate secured loans that migrated from potential problem loan status. During the month of April, $600,000 of the increase was paid off without loss to the Bank.

Management will continue to monitor the levels of non-performing and potential problem loans and dedicate the resources it believes are necessary to address the weaknesses in these credits in order to enhance the probability of collection or recovery of these assets. Management considers the levels and trends in non-performing loans and past due loans in determining how the provision and allowance for loan losses is estimated and adjusted.

Noninterest Income

Noninterest income for the first quarter of 2007 decreased by $109,000, or 5.6%, from the $1,934,000 reported for the 2006 period. Mortgage brokerage income decreased by $182,000 or 21.7%, from $837,000 for the 2006 period, due to a softening of the residential real estate market and a decrease in the number of loans originated and sold during the quarter. The Company decided in mid-2006 to refocus its mortgage-lending efforts to emphasize production for sale of conventional one-to-four family mortgages, and to limit wholesale mortgage production to a select group of high-quality originators. Service charges on deposit accounts increased by $59,000 over the first quarter of 2006, primarily as a result of increased volumes of overdraft fee income.

Noninterest Expenses

Salaries and employee benefits for the first quarter of 2007 were $355,000, or 13.8%, more than in the same 2006 period. This increase resulted from the hiring of two additional senior loan officers in the mortgage loan division during the first quarter of 2007, the hiring of other experienced lenders during 2006 and early 2007, the hiring of a Director of Internal Audit in early 2007, and related personnel and normal salary increases generally granted in conjunction with annual employee performance reviews. One of the new mortgage loan division officers will lead the Bank's mortgage loan production office opened in Charlotte, NC during the first quarter of 2007. Expenses of premises and equipment decreased by $62,000, or 9.9%, for the first quarter of 2007 as a result of the first quarter 2006 retirement of several obsolete assets and demolition costs associated with the old corporate headquarters building. In early May 2007 the Company began construction of a new branch office in the rapidly growing northeast Columbia, SC market. This office, which is expected to cost approximately $830,000, is expected to open for business by the end of 2007.

During the fourth quarter of 2006, the Company merged its four former subsidiary banks into a single bank. The Company expects that this change ultimately will result in significant financial savings, improved operational efficiency and effectiveness, improved customer service through unified selection of banking products and services, accelerated approval of loan requests, and better availability of ATM and in-bank services for all customers. Higher advertising and supplies expenses in the first quarter of 2007, however, reflect some of the short-term costs of this change.

Income Taxes

Income tax expense for the first quarter of 2007 decreased $145,000, or 20.2%, from the amount for the first quarter of 2006. The average tax rate for 2007 was 36.3% compared with 37.4% in 2006.

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 net proceeds of issuing $10,000,000 of trust preferred securities. 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 March 31, 2007 were $469,770,000, a decrease of $13,851,000, or 2.9%, from the amount as of December 31, 2006. As of March 31, 2007 the loan to deposit ratio was 90.3%, compared with 84.7% at December 31, 2006 and 90.8% at March 31, 2006. Loans held-for-sale have not been included in the numerator of the calculation of the loan to deposit ratio. The Bank has significant amounts of long-term debt available under agreements with the Federal Home Loan Bank of Atlanta.

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

CAPITAL RESOURCES

CBI and the Bank 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 March 31, 2007 risk-based capital ratios for CBI and the Bank are presented in the following table, compared with the "well capitalized" (Bank only) and minimum ratios under the regulatory definitions and guidelines:

	March 31, 2007		
	Tier 1	Total Capital	Leverage
Community Bankshares, Inc.	13.26%	14.43%	10.17%
Community Resource Bank	11.65%	12.83%	8.88%
Minimum "well capitalized" requirement	6.00%	10.00%	6.00%
Minimum requirement	4.00%	8.00%	5.00%

As shown in the table above, the Bank's capital ratios exceed 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.

SUBSEQUENT EVENT

In the fourth quarter of 2006, CBI merged its four banks into one bank and, as part of its ongoing asset/liability review process, has since been reviewing its combined balance sheet. For a long period, each of the former subsidiary banks maintained an investment in the stock of The Bankers Bank in Atlanta, Georgia. Management determined that the Bank had too great an investment in that stock and elected to sell 275 of the 375 shares owned at a pretax gain of $704,000. This nonrecurring gain will be recognized in the consolidated financial statements for the second quarter of 2007.

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. Such transactions are used by CBI for general corporate purposes.

Variable Interest Entity

As discussd under "Results of Operations - Net Interest Income" and in the notes to unaudited consolidated financial statements under "Variable Interest Entities," as of March 31, 2007, CBI held an equity interest in, and guarantees the liabilities of, a non-consolidated variable interest entity, SCB Capital Trust I.

Commitments

The Bank 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:

	March 31, 2007 (Dollars in thousands)
Loan commitments	$ 64,084
Standby letters of credit	2,595

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 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.

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 is expected to begin during the second quarter of 2007 and the office is expected to open for business before year end. 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 March 31, 2007, and the estimated fair values of those financial instruments included in other assets and liabilities in the balance sheet as of that date.

	March 31, 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	$ 16,320	$ 22
Forward sales contracts with investors of mortgage loans to be held for sale	$ 16,320	$ (22)

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 March 31, 2007, CBI is positioned so that net interest income would decrease $48,000 and net income would decrease $32,000 in the next twelve months if interest rates rose 100 basis points. Conversely, net interest income would increase $48,000 and net income would increase $32,000 in the next twelve months if interest rates declined 100 basis points. In the current interest rate environment, it is not expected that there will be any large decreases in market interest rates in the immediate future. 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 March 31, 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 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 2. Unregistered Sales of Equity Securities and Use of Proceeds

On February 14, 2007, the Company sold 500 shares of its common stock to an executive officer for an aggregate purchase price of $8,250. Issuance of the securities was not registered under the Securities Act of 1933 in reliance on the exemption provided by Section 4(2) thereof because no public offering was involved.

Item 6. Exhibits

Exhibits	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: May 10, 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)