COMMUNITY BANKSHARES INC /SC/
Form 10-Q
May 13, 2008

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, 2008 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, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer (Do not check if a smaller reporting company)	[ ]	Smaller reporting company	[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,4,455,056 shares outstanding on May 2, 2008.

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 $1,650 for 2008 and $1,650 for 2007) ....
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 - 4,457,556 for 2008 and 4,446,456 for 2007 ....
Retained earnings ....
Accumulated other comprehensive income ....

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 ...
Debt securities ...
Dividends ...
Federal funds sold ...

Total interest and dividend income ...

Interest expense
Deposits
Time deposits $100M and over ...
Other deposits ...

Total interest expense on deposits ...
Short-term borrowings ...
Long-term debt ...

Total interest expense ...

Net interest income ...
Provision for loan losses ...

Net interest income after provision ...

Noninterest income
Service charges on deposit accounts ...
Mortgage brokerage income ...
Net securities gains ...
Other ...

Total noninterest income ...

Noninterest expenses
Salaries and employee benefits ...
Premises and equipment ...
Advertising ...
Supplies ...
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		
	Number of Shares	Amount	Retai Earni
		(Dollars in thousan	
Balance, January 1, 2007	4,441,220	$ 30,603	$ 22
Comprehensive income			
Net income	-	-	1
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	$ 30,870	$ 22
Balance, January 1, 2008	4,446,456	$ 30,505	$ 22
Comprehensive income			
Net income	-	-	1

Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of $79	-	-	
Reclassification adjustment for losses (gains) realized in income, net of income taxes of $12	-	-	
Total other comprehensive income (loss)	-	-	
Total comprehensive income	-	-	
Share-based compensation	-	7	
Proceeds of sale of common stock	10,600	119	
Exercise of employee stock options	1,000	11	
Common stock repurchased and cancelled	(13,700)	(166)	
Restricted stock grants to employees	13,200	-	
Cash dividends declared, $.12 per share	-	-	
Balance, March 31, 2008	4,457,556	$ 30,476	$ 23

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 provided by operating activities
Depreciation and amortization
Net accretion of securities
Provision for loan losses
Net securities gains
Proceeds of sales of loans held for sale
Originations of loans held for sale
Gains on sales of loans held for sale
Losses on sales of foreclosed assets
Decrease (increase) in accrued interest receivable
(Increase) decrease in prepaid expenses and other assets
Decrease in accrued interest payable
Increase (decrease) in accrued expenses and other liabilities

Provision for off balance sheet credit exposure ....
Share-based compensation ....

Net cash provided by operating activities ....

Investing activities
Net decrease 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 decrease (increase) in loans made to customers ....
Purchases of premises and equipment ....
Proceeds from sales of foreclosed assets ....

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

Financing activities
Net decrease in deposits ....
Net decrease in short-term borrowings ....
Proceeds from issuing long-term debt ....
Repayment of long-term debt ....
Proceeds from sale of stock ....
Exercise of employee stock options ....
Common stock repurchased and cancelled ....
Cash dividends paid ....

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

Increase (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.

COMMUNITY BANKSHARES, INC.
Consolidated Statements of Cash Flows (continued)

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 foreclosed assets ....

See accompanying notes to unaudited consolidated financial statements.

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COMMUNITY BANKSHARES, INC.

Notes to Unaudited Consolidated Financial Statements

Accounting Principles - A summary of significant accounting policies and the audited financial statements for 2007 are included in Community Bankshares, Inc.'s (the "Company" or "CBI") Annual Report on Form 10-K for the year ended December 31, 2007 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 2007 Annual Report on Form 10-K.

Nonperforming Loans - As of March 31, 2008, there were $6,929,000 in nonaccrual loans and $192,000 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.

At March 31, 2008, the Company awarded 13,200 shares of restricted stock and 45,650 stock appreciation rights to certain employees under the 2007 Equity Plan. The restricted shares will vest in five years. The SARs will vest 20% per year over the next five years. Compensation expense for the awards will be recognized beginning in April 2008.

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.

Fair Value Measurements

The Company implemented Statement of Financial Accounting Standards No. 157, "Fair Value Measurements," ("SFAS No. 157") as required on January 1, 2008. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date, and establishes a framework for measuring fair value. It also establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date, eliminates the consideration of large position discounts for financial instruments quoted in active markets, requires consideration of the Company's creditworthiness when valuing its liabilities,

and expands disclosures about instruments measured at fair value. The following is a summary of the measurement attributes applicable to financial assets and liabilities that are measured at fair value on a recurring basis:

		Fair Value Measurement at Reporting	
Description	March 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
			(Dollars in thousan
Assets			
Securities available-for-sale		$ -	$ 59,333
Deriviatives		-	20
Liabilities			
Derivatives		-	20

Pricing for the Company's securities available-for-sale is obtained from an independent third-party that uses a process that may incorporate current market prices, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, other reference data and industry and economic events that a market participant would be expected to use in valuing the securities. Not all of the inputs listed apply to each individual security at each measurement date. The independent third party assigns specific securities into an "asset class" for the purpose of assigning the applicable level of the fair value hierarchy used to value the securities. The techniques used after adoption of SFAS No. 157 are consistent with the methods used previously.

No cumulative effect adjustments were required upon initial application of SFAS No. 157. Available-for-sale securities continue to be measured at fair value

with unrealized gains or losses recorded in other comprehensive income.

The following is a summary of the measurement attributes applicable to assets and liabilities that are measured at fair value on a non-recurring basis:

Description	March 31, 2008	Fair Value Measurement at Reporting Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
			(Dollars in thousan
Collateral dependent impaired loans		$ -	$ -
Foreclosed Assets		-	879
Goodwill		-	-
Core deposit intangibles		-	-

Collateral dependent impaired loans consist of nonaccrual loans for which the underlying collateral provides the sole repayment source. The Company measures the amount of the impairment for such loans by determining the difference between the fair value of the underlying collateral and the recorded amount of the loan. The fair value of the underlying collateral generally is based on appraisals performed in accordance with applicable appraisal standards by independent appraisers engated by the Company. In many cases, management updates values reflected in older appraisals obtained at the time of loan origination and already in the Company's possession using its own knowledge, judgments and assumptions about current market and other conditions in lieu of obtaining a new independent appraisal. If the fair value of the collateral is less than the recorded amount of the loan, a valuation allowance is established for the difference; otherwise, no valuation allowance is established. The valuation allowance for impaired loans is a component of the allowance for loan losses. Periodically, management reevaluates the fair value of the collateral and makes adjustments to the valuation allowance as appropriate. However, if the fair value of the collateral subsequently recovers in value such that it exceeds the recorded loan amount, no adjustment is made in the loan's value for the excess. The amount of the valuation allowance for the Company's collateral dependent impaired loans was $1,947,000 as of March 31, 2008.

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Foreclosed assets consist of assets acquired through, or in lieu of, loan foreclosure, are held for sale and initially were recorded at fair value, less estimated costs to sell at the date of acquisition, thus establishing a new cost basis. Loan losses arising from the acquisitions of such property are charged against the allowance for loan losses at the date the property is acquired. Subsequent to acquisition, valuations are performed periodically and the assets are carried at the lower of the new cost basis or fair value. Revenues and expenses from operations and changes in any subsequent valuation allowance are included in net foreclosed assets costs and expenses.

Goodwill was initially recorded as the difference between the purchase price and the fair values of tangible assets, separately identifiable intangible assets,

and liabilities acquired in prior business combination transactions. Goodwill is tested for impairment no less than annually. The Company previously has not recognized any impairment of goodwill.

Core deposit intangibles represent the excess of the purchase price of core deposits over their fair values at the date of their acquisition in a purchase transaction. The core deposit intangible is amortized as a component of other expense over the estimated lives of the deposits acquired. During the first quarter of 2008, $61,000 of such amortization was included in net income.

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 was effective for the Company as of January 1, 2008. 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. The Company has not elected to measure at fair value any financial instruments under the provisions of SFAS No. 159. The adoption of the Statement had no effect on the Company's financial statements.

New Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 160 is effective for years beginning after December 31, 2008 and is to be applied prospectively with retrospective presentation and disclosure requirements for comparative financial statements. Early adoption is prohibited. SFAS No. 160 seeks to improve the relevance, comparability and transparency of financial information that a reporting entity provides in its consolidated financial statements by separately identifying and reporting several financial statement components into amounts that are attributable to the reporting entity or that are attributable to noncontrolling interests. SFAS No. 160 also specifies the conditions under which an entity is required to deconsolidate its interest in a subsidiary. The Company currently has no consolidated subsidiaries that are not wholly owned nor are any transactions contemplated that would result in such a condition. Therefore, it is expected that the adoption of SFAS No. 160 in January 2009 will have no effect on the Company's consolidated financial statements.

CAUTIONARY NOTICE WITH RESPECT TO FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements" within the meaning of the securities laws. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forwarding-looking statements.

All statements that are not historical facts are statements that could be "forward-looking statements." You can identify these forward-looking statements through the use of words such as "may," "will," "should," "could," "would," "expect," "anticipate," "assume," indicate," "contemplate," "seek," "plan," "predict," "target," "potential," "believe," "intend," "estimate," "project," "continue," or other similar words. Forward-looking statements include, but are not limited to, statements regarding the Company's future

business prospects, revenues, working capital, liquidity, capital needs, interest costs, income, business operations and proposed services.

These forward-looking statements are based on current expectations, estimates and projections about the banking industry, management's beliefs, and assumptions made by management. Such information includes, without limitation, discussions as to estimates, expectations, beliefs, plans, strategies, and objectives concerning future financial and operating performance. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed or forecasted in such forward-looking statements. The risks and uncertainties include, but are not limited to:

- future economic and business conditions;
- lack of sustained growth in the economies of the Company's market areas;
- government monetary and fiscal policies;
- the effects of changes in interest rates on the levels, composition and costs of deposits, loan demand, and the values of loan collateral, securities, and interest sensitive assets and liabilities;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment, and insurance services, as well as competitors that offer banking products and services by mail, telephone, computer and/or the Internet;
- credit risks;
- the failure of assumptions underlying the establishment of the allowance for loan losses and other estimates, including the value of collateral securing loans;
- the risks of opening new offices, including, without limitation, the related costs and time of building customer relationships and integrating operations as part of these endeavors and the failure to achieve expected gains, revenue growth and/or expense savings from such endeavors;
- changes in laws and regulations, including tax, banking and securities laws and regulations;
- changes in accounting policies, rules and practices;
- changes in technology or products may be more difficult or costly, or less effective, than anticipated;
- the effects of war or other conflicts, acts of terrorism or other catastrophic events that may affect general economic conditions and economic confidence; and
- other factors and information described in this report and in any of the other reports that we file with the Securities and Exchange Commission under the Securities Exchange Act of 1934.

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. The Company has no obligation, and does not undertake, to update, revise or correct any of the forward-looking statements after the date of this report. The Company has expressed its expectations, beliefs and projections in good faith and believes they have a reasonable basis. However, there is no assurance that these expectations, beliefs or projections will result or be achieved or accomplished.

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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 2007 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 2007 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, 2008, deposits decreased by $5,642,000, or 1.2%, primarily due to a net seasonal outflow of deposits related to local government tax receipts. Long-term debt increased by $12,498,000, or 42.1%. Federal funds sold increased by $16,420,000, or 235.1%, and loans decreased by $11,572,000, or 2.5%. during the period. Real estate construction loans decreased by $4,660,000 or 9.34%, and commercial, financial and agricultural loans decreased by $3,382,000, or 4.75% during the first quarter of 2008.

The seasonal outflows of local governmental deposits is a well-understood, recurring event as local governments accumulate annual tax

receipts near year end and then begin withdrawing the funds for use or allocation. Early in the quarter, $15 million in long-term financing was obtained from the Federal Home Loan Bank of Atlanta to provide management with the flexibility to reduce some higher cost time deposits and provide liquidity

for anticipated demand for new loans. However, demand over the first quarter for loans declined related to the overall slowdown in business activity. Temporarily the surplus liquidity was maintained in federal funds, but early in the second quarter management decided to purchase a combination of U.S. Agency and Government Sponsored Enterprise mortgage backed pass-through bonds in order to lock a positive spread on the new debt.

Earnings Performance

For the quarter ended March 31, 2008, CBI earned consolidated net income of $1,101,000, compared with $1,005,000 for the comparable period of 2007, an increase of $96,000 or 9.6%. Basic earnings per share were $.25 for the 2008 period, compared with $.23 for the 2007 quarter. Diluted earnings per share were $.25 for the 2008 period and $.22 for the 2007 period.

Net interest income for the first quarter of 2008 was $170,000 more than the amount reported for the first quarter of 2007. The positive effects of higher average amounts of loans and higher rates earned on securities in 2008 were substantially offset by lower yields on loans. However, primarily by reducing the rates paid for savings and interest bearing transaction deposits aggressively, interest expense for the first quarter of 2008 was $165,000 lower than for the 2007 period. The Federal Reserve's Open Market Committee (the "Committee") lowered interest rates 100 basis points during the last four months of 2007 and 200 basis points through the first quarter of 2008. 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 2008 period, have also been affected by those actions. The net interest margin for the first quarter of 2008 at 3.97% was 4 basis points lower than for the prior year period.

The results for the 2008 period were affected unfavorably by the regular evaluation of the Company's allowance for loan losses, which resulted in an increase of $95,000 in the provision for loan losses compared with the same period of 2007.

Noninterest income for the 2008 first quarter was $58,000 less than for the same period of 2007, primarily due to a decrease of $133,000 in mortgage brokerage income. However, noninterest expense reductions in the mortgage division substantially offset the reduction in fee income. Service charges assessed on deposit accounts and for other services increased by $36,000 in the 2008 period over the prior year amount.

Noninterest expense for the first quarter of 2008 was $128,000 less than for the same period of 2007, primarily due to a decrease of $87,000 in salaries and employee benefits that resulted largely from the elimination of the mortgage division's wholesale operations in the first quarter of 2008.

Summary Income

(Dollars in t

For the Three Months Ended March 31,	2008	2007
Interest income	$9,438	$9,433
Interest expense	4,026	4,191

Net interest income	5,412	5,242
Provision for loan losses	470	375
Noninterest income	1,767	1,825
Noninterest expenses	4,986	5,114
Income tax expense	622	573
Net income	$1,101	$1,005

Net Interest Income

Net interest income is the amount of interest income earned on interest earning assets (loans, securities, interest bearing deposits in other banks, and federal funds sold), less the interest expense incurred on interest bearing liabilities (interest bearing deposits, short-term borrowings, and long-term debt), 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 for the first quarter of 2008 was substantially unchanged from the first quarter of 2007. However, the individual components of interest income changed significantly, reflecting management's decisions about the Company's investments in the various categories of earning assets. Interest income from loans increased to $8,441,000 in the 2008 period from $8,157,000 in the 2007 period due to a higher average volume of loans outstanding in the 2008 period. The amount of interest earned on investment securities in the first quarter of 2008 decreased by $258,000, or 24.3%, from the amount earned in the 2007 period due to lower average volumes in the current year. Although the average amount of federal funds sold in the 2008 quarter increased by 58.8% over the prior year period, the interest income from those assets was just $1,000, or ..6%, more than in the prior year period due to a reduction of 192 basis points in the yield associated with those assets.

Interest expense for deposits decreased to $3,476,000 from $3,638,000 for the 2007 period. The decrease primarily was caused by lower average amounts of savings deposits and lower rates paid for interest bearing transaction accounts and savings deposits. Higher average amounts of time deposits in the 2008 period resulted in an increase of $226,000 in interest expense for those deposits. The rate paid for those deposits was substantially unchanged from the prior year rate.

The average rate paid for all interest bearing deposits was 3.28% during the 2008 period, compared with 3.56% during the 2007 period. The Company has lowered the rates offered for its various deposit products in conjunction with the overall decline in market interest rates paid for deposits.

In the first quarter of 2008, interest expense for long-term debt, which includes junior subordinated debentures and advances obtained from the Federal Home Loan Bank of Atlanta, totaled $491,000, an increase of $54,000, or 12.4%, from the amount for the same period of 2007. Average amounts of long-term debt outstanding increased by $11,069,000, or 42.1%, and the average rate paid for those funds decreased by 145 basis points. During the 2008 period,

$15,000,000 of long-term fixed-rate debt was acquired at a weighted average interest rate of 2.35%. The debt had a weighted average life of 7.5 years at the

time it was acquired.

Interest expense for short-term borrowings in the first quarter of 2008 was $59,000, a decrease of $57,000, or 49.1%, from the amount for the same period of 2007, as a result of a slight decrease in the average amount of those borrowings and a 193 basis point reduction in the rate paid.

Average Balances, Yie
Three Months Ended

	2008			
	Average Balances	Interest Income / Expense	Yields / Rates (1)	A Ba
			(Dollars in thous	
Assets				
Interest bearing deposits with other banks	$ 1,358	$ 11	3.26%	$
Investment securities - taxable	56,342	766	5.47%	
Investment securities - tax exempt (2)	4,261	39	3.68%	
Federal funds sold	22,474	181	3.24%	
Loans, including loans held for sale (2)(3)	464,498	8,441	7.31%	
Total interest earning assets	548,933	9,438	6.92%	
Cash and due from banks	20,432			
Allowance for loan losses	(5,625)			
Premises and equipment	10,771			
Intangible assets	6,634			
Other assets	7,189			
Total assets	$ 588,334			$
Liabilities and shareholders' equity				
Interest bearing deposits				
Interest bearing transaction accounts	$ 79,736	$ 168	0.85%	$
Savings	86,297	375	1.75%	
Time deposits	259,749	2,933	4.54%	
Total interest bearing deposits	425,782	3,476	3.28%	
Short-term borrowings	11,590	59	2.05%	
Long-term debt	37,345	491	5.29%	
Total interest bearing liabilities	474,717	4,026	3.41%	
Noninterest bearing demand deposits	57,351			
Other liabilities	1,881			
Shareholders' equity	54,385			
Total liabilities and shareholders' equity	$ 588,334			$
Interest rate spread			3.51%	
Net interest income and net yield on earning assets		$ 5,412	3.97%	

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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 2008 first quarter was $470,000, an increase of $95,000, or 25.3%, from the $375,000 provided for the same period of 2007. This increase was caused by increases in nonaccrual and potential problem loans during the 2008 first quarter, as discussed later in this section. Also contributing to the increase in provision was slowing of the economy in our market areas.

Net charge-offs during the three months ended March 31, 2008 were $78,000, compared with $76,000 for the same period of 2007. The allowance for loan losses as of March 31, 2008 was 1.27% of loans outstanding, compared with 1.15% as of December 31, 2007 and 1.17% as of March 31, 2007.

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

	Three Months Ended March 31, 2008
	(Do
Allowance at beginning of period	$ 5,343
Provision for loan losses	470
Net charge-offs	(78)
Allowance at end of period	$ 5,735
Allowance as a percentage of loans outstanding	1.27%
Loans at end of period	$ 452,467

Non-performing loans, consisting of nonaccrual loans and loans 90 or more days past due which are still accruing interest, totaled $6,929,000 as of March 31, 2008, compared with $6,542,000 as of December 31, 2007. The majority of non-performing loans as of March 31, 2008 and December 31, 2007 were secured by commercial and residential 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, 2008 and December 31, 2007:

	March 31, 2008	December 31, 2007
	(Dollars in thousands)	
Non-performing loans		
Nonaccrual loans	$6,929	$ 6,542
Past due 90 days or more and still accruing	192	-
Total	$7,121	$ 6,542
Non-performing loans as a percentage of:		
Loans outstanding	1.57%	1.41%
Allowance for loan losses	124.17%	122.44%

The following table shows quarterly changes in non-performing and potential problem loans since December 31, 2005. 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	Percenta of Tota 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%
Net change	2,323	-	2,323	
September 30, 2007	7,480	-	7,480	1.64%
Net change	(938)	-	(938)	
December 31, 2007	6,542	-	6,542	1.41%
Net change	387	192	579	
March 31, 2008	$ 6,929	$ 192	$ 7,121	1.57%

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During the first quarter of 2008, nonaccrual loans increased by $387,000. The primary drivers of this increase included approximately $2.6 million of loans that were moved into nonaccrual status. Of this amount, approximately $1.7 million represents two relationships, both of which are real estate secured coastal properties. Other elements of the increase were attributable to a large number of smaller dollar volume loans that were moved into nonaccrual status as a result of normal risk management processes. One major relationship of approximately $1.6 million, a commercial business loan in our Florence region that had been in nonaccrual status, was paid off during the quarter without loss to the bank. Other loans were removed from nonaccrual status by chargeoffs or payoffs.

The $6.9 million increase in potential problem loans during the quarter resulted from management concerns about changes to the overall economic conditions in our various markets and improvements in our risk management processes for loan review. The Bank's primary loan review function is now in-house rather than outsourced and this provides for a more timely and more broadly based assessment of risk in the loan portfolio. Although these loans do have a higher than normal credit concern for management, the amounts do not represent management's expectations of potential losses.

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 2008 decreased by $58,000, or 3.2%, from the $1,825,000 reported for the 2007 period. Mortgage brokerage income decreased by $133,000 or 20.3%, from $655,000 for the 2007 period, due to continuing weakness in the residential real estate market, a decrease in the number of loans originated and sold during the quarter, and the elimination of the mortgage banking subsidiary's wholesale lending division during the 2008 first quarter. The Company in mid-2006 refocused its mortgage-lending efforts to emphasize production for sale of conventional one-to-four family mortgages, and limited wholesale mortgage production to a select group of high-quality originators. However, due to recent conditions in the wholesale market, management decided early in the first quarter of 2008 to exit the wholesale lending business entirely.

Service charges on deposit accounts increased by $36,000 over the first quarter of 2007, primarily as a result of increased volumes of overdraft fee income. Net securities gains increased in the 2008 period due to the issuer-initiated early redemptions of securities that were purchased at a discount. Because interest rates have decreased quickly in a short period of time, many issuers of debt securities have seized the opportunity to refinance and, accordingly, have initiated such redemptions.

Noninterest Expenses

Salaries and employee benefits for the first quarter of 2008 were $87,000, or 3.0%, less than in the same 2007 period. This decrease resulted

primarily from the elimination of the mortgage brokerage subsidiary's wholesale dvision in the first quarter of 2008. Partially offsetting those cost reductions, the Bank opened a new branch office in northeast Richland County during the first quarter of 2008.

Income Taxes

Income tax expense for the first quarter of 2008 increased $49,000, or 8.6%, over the amount for the first quarter of 2007. The average tax rate for 2008 was 36.1% compared with 36.3% for the 2007 period.

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.

The Bank has further sources of liquidity which include several large federal funds borrowing lines with correspondent banks and significant unused additional borrowing capacity for short and long-term debt with the Federal Home Loan Bank of Atlanta.

Total deposits as of March 31, 2008 were $476,065,000, a decrease of $5,642,000, or 1.2%, from the amount as of December 31, 2007. As of March 31, 2008 the loan to deposit ratio was 95.0%, compared with 96.3% at December 31, 2007 and 90.3% at March 31, 2007. Loans held-for-sale have not been included in the numerator of the calculation of the loan to deposit ratio.

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, 2008 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:

	Marc	
	Tier 1	Tota
Community Bankshares, Inc.	12.77%	
Community Resource Bank	11.44%	
Minimum "well capitalized" requirement	6.00%	
Minimum requirement	4.00%	

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.

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, 2008, 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, 2008
	(Dollars in thousands)
Loan commitments	$61,536
Standby letters of credit	1,591

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.

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, 2008, and the estimated fair values of those financial

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instruments included in other assets and liabilities in the balance sheet as of that date.

	March 31, 2008	
	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	$12,087	$ (20)
Forward sales contracts with investors of mortgage loans to be held for sale	$12,087	$ 20

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, 2008, CBI is positioned so that net interest income would decrease $14,000 and net income would decrease $11,000 in the next twelve months if interest rates rose 100 basis points. Conversely, net interest income would increase $14,000 and net income would increase $11,000 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, 2008 there was no significant change from the interest rate sensitivity analysis for the various changes in interest rates calculated as of December 31, 2007. 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 2007 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.

In connection with management's evaluation required by 17 C.F.R. 240.13a-15(d) or 240.15d-15(d) of the Company's internal control over financial reporting, management has determined that 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

(a) Sales of Unregistered Securities

On February 1 and February 4, 2008, the Company sold 600 and 10,000 shares, respectively, of its common stock to an executive officer and a director for aggregate sales prices of $6,720 and $112,000, respectively. 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.

(c) Purchases of Securities

ISSUER PURCHASES OF EQUITY SECURITIES (1)

Period	(a) Total Number of Shares Purchased	(b) Average Price per Share
2/1/08 - 2/28/08	5,200	$ 12.18
3/1/08 - 3/31/08	8,500	$ 12.11
Total	13,700	$ 12.14

(1) On July 30, 2007, the Board of Directors authorized the repurchase of up to 500,000 shares of the Company's common stock. The program expires on July 30, 2008.

Item 6. Exhibits

Exhibits

10-1 Employment Agreement between the Company and Samuel L. Erwin, as amended December 6, 2007 in accordance with Internal Revenue Code Section 409A and regulations thereunder.

10-2 Employment Agreement between the Company and William W. Traynham, as amended December 7, 2007 in accordance with Internal Revenue Code Section 409A and regulations thereunder.

10-3 Employment Agreement between the Company and Michael A. Wolfe, as amended December 7, 2007 in accordance with Internal Revenue Code Section 409A and regulations thereunder.

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 12, 2008

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)

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