COMMUNITY BANKSHARES INC /SC/
Form 10-Q
November 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 September 30, 2007 Commission File No. 000-22054

COMMUNITY BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

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

102 Founders Court
Orangeburg, South Carolina 29118

(Address of principal executive offices, zip code)

(803) 535-1060

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is 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, 4,443,456 shares outstanding on October 31, 2007.

COMMUNITY BANKSHARES, INC.

FORM 10-Q

Index

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets ....
Consolidated Statements of Income ....
Consolidated Statements of Changes in Shareholders' Equity ....
Consolidated Statements of Cash Flows ....
Notes to Unaudited Consolidated Financial Statements ....

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Oper
Item 3. Quantitative and Qualitative Disclosures About Market Risk ....
Item 4T. Controls and Procedures ....

PART II - OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds...................
Item 6. Exhibits...

SIGNATURES ....

PART I - FINANCIAL INFORMATION

Item 1. - Financial Statements

COMMUNITY BANKSHARES, INC.
Consolidated Balance Sheets

Assets

Cash and due from banks
Federal funds sold

Total cash and cash equivalents
Interest bearing deposits with other banks
Securities available-for-sale
Securities held-to-maturity (estimated fair value $1,750 for 2007 and $1,750 for 2006)
Other investments
Loans held for sale
Loans receivable
Less, allowance for loan losses

Net loans
Premises and equipment - net
Accrued interest receivable
Net deferred income tax assets
Goodwill
Core deposit intangible assets
Prepaid expenses and other assets

Total assets

Liabilities
Deposits
Noninterest bearing
Interest bearing

Total deposits
Short-term borrowings
Long-term debt
Accrued interest payable
Accrued expenses and other liabilities

Total liabilities

Shareholders' equity
Common stock - no par value; 12,000,000 shares authorized; issued and outstanding - 4,443,456 for 2007 and 4,441,220 for 2006
Additional paid-in capital
Retained earnings
Accumulated other comprehensive income (loss)

Total shareholders' equity

Total liabilities and shareholders' equity

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY BANKSHARES, INC.
Consolidated Statements of Income

	(Period E	
	Three Months	
	2007	2006
	(Dollars in th	
Interest and dividend income		
Loans, including fees	$ 8,972	$ 8,58
Interest bearing deposits with other banks	5	3
Debt securities	1,019	60
Dividends	46	3
Federal funds sold	82	35
Total interest and dividend income	10,124	9,61
Interest expense		
Deposits		
Time deposits $100M and over	1,196	1,06
Other deposits	2,794	2,46
Total interest expense on deposits	3,990	3,52
Short-term borrowings	193	8
Long-term debt	489	45
Total interest expense	4,672	4,07
Net interest income	5,452	5,54
Provision for loan losses	375	66
Net interest income after provision	5,077	4,87
Noninterest income		
Service charges on deposit accounts	996	85
Mortgage loan brokerage income	528	96
Net securities gains	-	
Gains on sales of other investments	-	
Other	215	14
Total noninterest income	1,739	1,95
Noninterest expenses		
Salaries and employee benefits	2,897	2,79
Premises and equipment	582	64
Advertising	178	15
Supplies	106	15
Provision for warranty liabilities	572	1
Other	1,076	1,14
Total noninterest expenses	5,411	4,90

Income before income taxes	1,405	1,93
Income tax expense	533	73
Net income	$ 872	$ 1,20
Per share		
Net income	$ 0.20	$ 0.2
Net income - diluted	0.19	0.2
Cash dividends declared	0.12	0.1

See accompanying notes to unaudited consolidated financial statements.

-4-

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

(Unaudited)

	Common Stock			
	Number of Shares	Amount	Additional Paid-in Capital	Reta Ear
	(Dollars in thousan			
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 $76	-	-	-	
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	36,917	396	-	
Cash dividends declared, $.33 per share	-	-	-	
Balance, September 30, 2006	4,442,220	$ 30,614	$ -	$
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 $165	-	-	-	
Reclassification adjustment for losses (gains) realized in income, net of income taxes of $1	-	-	-	
Total other comprehensive income (loss)	-	-	-	
Total comprehensive income	-	-	-	
Stock-based compensation	-	-	31	
Proceeds of sale of common stock	500	8	-	
Exercise of employee stock options	43,836	429	-	
Repurchases and cancellation of common stock	(42,100)	(607)	-	
Cash dividends declared, $.36 per share	-	-	-	
Balance, September 30, 2007	4,443,456	$ 30,433	$ 31	$

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

Provision for loan losses ....

Depreciation and amortization ....

Amortization of intangibles ....

Net (accretion) or amortization of securities ....

Net securities (gains) or losses ....

Net gains on sales of other investments ....

Proceeds of sales of loans held for sale ....

Originations of loans held for sale ....

Increase in accrued interest receivable	
Decrease in other assets	
(Gains) losses on sale of foreclosed assets	
(Decrease) increase in accrued interest payable	
(Decrease) increase in other liabilities	
Provision for recourse liabilities	
Share-based compensation	
Net cash provided by operating activities	
Investing activities	
Net decrease (increase) in interest bearing deposits with other banks	
Purchases of available-for-sale securities	
Maturities, calls and paydowns of available-for-sale securities	
Purchases of other investments	
Proceeds of sales of other investments	
Net increase in loans made to customers	
Purchases of premises and equipment	
Proceeds of dispositions of premises and equipment	
Proceeds from sales of foreclosed assets	
Net cash used by investing activities	
Financing activities	
Net (decrease) increase in deposits	
Net increase (decrease) in short-term borrowings	
Proceeds from issuing long-term debt	
Repayment of long-term debt	
Exercise of employee stock options	
Proceeds of sale of common stock	
Repurchases and cancellation of common stock	
Cash dividends paid	
Net cash provided (used) by financing activities	
(Decrease) increase in cash and cash equivalents	
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 Activities	
Transfers of loans receivable to foreclosed assets	

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY BANKSHARES, INC.

Notes to Unaudited Consolidated Financial Statements

Accounting Principles - A summary of significant accounting policies and the audited financial statements for 2006 are included in Community Bankshares, Inc.'s (the "Company" or "CBI") Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission. Certain amounts in the 2006 financial statements have been reclassified to conform to the current presentation. Such reclassifications had no effect on net income or retained earnings for any period.

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 September 30, 2007, there were $7,480,000 in nonaccrual loans and no loans 90 or more days past due and still accruing interest.

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

	(Unau	
	Period Ended	
	Three Months	
	2007	2006
	(Dollars in thousands	
Net income per share, basic		
Numerator - net income	$ 872	$ 1,201
Denominator		
Weighted average common shares issued and outstanding	4,466,184	4,439,245
Net income per share, basic	$ .20	$ .27
Net income per share, assuming dilution		

Numerator - net income	$ 872	$ 1,201
Denominator		
Weighted average common shares		
issued and outstanding	4,466,184	4,439,245
Effect of dilutive stock options	80,215	78,967
Total shares	4,546,399	4,518,212
Net income per share, assuming dilution	$ .19	$ .27

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 share-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. Also, compensation cost would 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. During the first nine months of 2007, stock-based compensation included in salaries and benefits totaled $31,000.

Variable Interest Entity - On March 8, 2004, CBI sponsored the creation of a Variable Interest Entity ("VIE"), SCB Capital Trust I (the "Trust"), and is the sole owner of the common securities issued by the Trust. On March 10, 2004, the Trust issued $10,000,000 in floating rate capital securities. The proceeds of this issuance, and the amount of CBI's investment in the common securities, 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 Debentures and the capital 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 to perform under other obligations that are not senior to the junior subordinated

Debentures.

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

The Company's investment in the common securities of 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.

CHANGES IN FINANCIAL CONDITION

During the first nine months of 2007, gross loans receivable increased by $47,022,000, loans held for sale decreased by $1,733,000, federal funds sold decreased by $29,102,000 and securities available-for-sale decreased by $4,164,000. Also during the nine months ended September 30, 2007, short term borrowings increased by $22,374,000, long-term debt increased by $3,493,000, noninterest bearing deposits decreased by $3,166,000 and interest bearing deposits decreased by $9,023,000.

During the third quarter of 2007, gross loans receivable increased by $8,797,000, federal funds sold decreased by $7,987,000, and loans held for sale decreased by $1,619,000. Interest bearing deposits decreased by $8,273,000 during the 2007 three month period and short-term borrowings increased by $16,374,000.

During 2007 loan growth has been strong and deposits have been stable to slightly decreasing, thereby creating pressure on the Bank's liquidity position. This challenge has impacted many community banks. Management has addressed this issue by selective use of brokered deposits, long and short-term advances from the Federal Home Loan Bank, and targeted deposit product promotions.

RESULTS OF OPERATIONS

Earnings Performance

Three Months Ended September 30, 2007 and 2006

For the quarter ended September 30, 2007, CBI recorded consolidated net income of $872,000, compared with $1,201,000 for the comparable period of 2006. This represents a decrease of $329,000 or 27.4%. Basic and diluted earnings per share were $.20 and $.19, respectively, in the 2007 period, compared with $.27 for both measures for the 2006 quarter.

Compared with the third quarter of 2006, operating results for the third quarter of 2007 reflect slightly lower net interest income, lower provisions for loan losses, a significantly higher provision for warranty liabilities, higher service charge income, and lower mortgage loan brokerage income. Lower net interest income was caused by higher interest rates paid for and higher average amounts of time deposits and short-term borrowings in the 2007 period which more than offset the effects of higher average amounts of loans and investments. The provision for loan losses decreased as a result of lower net charge-offs during the 2007 three month period. The higher provision for warranty liabilities is attributable to general warranty and representation

obligations related to imperfections in loans sold during 2006 by the Bank's mortgage loan division. The widespread and well-publicized problems in the home mortgage markets has resulted in an unusually large number of warranty claims by loan purchasers as well as lower volumes of loans closed during the 2007 quarter and a reduction in income from that activity.

		Summary Income Sta
		(Dollars in thous
For the Three Months Ended September 30,	2007	2006
Interest income	$10,124	$ 9,616
Interest expense	4,672	4,072
Net interest income	5,452	5,544
Provision for loan losses	375	665
Noninterest income	1,739	1,958
Noninterest expenses	5,411	4,906
Income tax expense	533	730
Net income	$ 872	$ 1,201

Nine Months Ended September 30, 2007 and 2006

For the nine months ended September 30, 2007, CBI recorded consolidated net income of $3,347,000, compared with $3,775,000 for the comparable period of 2006. This represents a decrease of $428,000 or 11.3%. Basic earnings per share were $.75 in the 2007 period, compared with $.85 for the 2006 period. Diluted earnings per share for the 2007 nine months period were $.74 compared with $.84 for the same period of 2006.

CBI's consolidated net income for the nine months ended September 30, 2007 was affected by slightly lower net interest income, lower provision for loan losses, lower mortgage loan brokerage income, and higher salaries and employee benefits expenses. Net interest income decreased primarily because the rates paid for deposits and other funding sources were 46 basis points higher than in the prior year nine month period. Mortgage loan brokerage income and the provision for warranty liabilities were affected by the same factors discussed above. Salaries and employee benefits expenses increased primarily because of the addition of new loan officers in the Midlands, Florence and the mortgage division and the addition of a new officer in the IT area. These increases occurred over the course of 2006 and early 2007.

		Summary Income S
		(Dollars in tho
For the Nine Months Ended September 30,	2007	2006
Interest income	$29,308	$27,332
Interest expense	13,297	11,194
Net interest income	16,011	16,138
Provision for loan losses	925	1,955
Noninterest income	6,331	5,952
Noninterest expenses	16,126	14,165
Income tax expense	1,944	2,195

Net income	$ 3,347	$ 3,775

Net Interest Income

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

Three Months Ended September 30, 2007 and 2006

Net interest income for the three months ended September 30, 2007 was $5,452,000, a decrease of $92,000, or 1.7%, from the amount reported for the third quarter of 2006. Interest income and interest expense for the 2007 quarter were both significantly higher than during the same period of 2006. Higher average amounts of interest earning assets, especially loans resulted in higher amounts of interest income. Higher interest rates paid and higher average amounts of interest-bearing liabilities outstanding were almost equally responsible for higher interest expenses in the 2007 three month period.

The average rate earned on loans, including loans held for sale, was 7.78% and 7.95% for the third quarters of 2007 and 2006, respectively. The primary driver for the rate decline was increased competition for new loan business, predominantly in our Midlands region where we have had most of our growth. In addition, in late September the Bank reduced its prime rate from 8.25% to 7.75%. Vaiable rate loans constitute approximately one third of the Bank's portfolio. The average yield on earning assets was 7.30% for the third quarter of 2006, compared with 7.35% for the third quarter of 2006. The average cost of time deposits increased to 4.73% for the third quarter of 2007, compared with 4.31% for the same period of 2006. The average cost of all interest-bearing liabilities was 3.96% for the 2007 quarter and 3.69% for the same period of 2006. Accordingly, the interest rate spread (interest earning assets yield minus the rate paid for interest-bearing liabilities) for the 2007 third quarter narrowed to 3.34%, or 32 basis points lower than for the same period of 2006. Net yield on earning assets (net interest income divided by average interest earning assets) for the 2007 quarter was 3.93%, or 31 basis points lower than for the same period of 2006.

Average amounts of interest earning assets were approximately $31,294,000 higher in the 2007 period than in the 2006 period. Average taxable investment securities increased by $24,969,000 and average loans increased by $29,004,000. Average federal funds sold decreased by $21,004,000. In addition, robust growth was noted in the average amounts of interest-bearing liabilities as the 2007 average amount was approximately $30,206,000 more than the 2006 amount.

Over the past four quarters yields on loans have been impacted most significantly by competition. Rates on deposits have been impacted by the Bank's efforts to consolidate and unify product lines subsequent to the merger of the Company's four bank subsidiaries in October 2006, efforts to reduce high cost time deposits and overall market competition for transaction and nontransaction deposit accounts. The net impact has been a reduction in margin of 31 basis points from the third quarter of 2006 to the third quarter of 2007.

Average Balances, Yield
Three Months Ended Sep

(Dollars in thousand

	2007 Average Balances	2007 Interest Income / Expense	2007 Yields / Rates (1)	2 Av Bal
Assets				
Interest earning deposits with other banks	$ 488	$ 5	4.06%	$
Investment securities - taxable	80,817	1,023	5.02%	
Investment securities - tax exempt (2)	4,566	42	3.65%	
Federal funds sold	6,786	82	4.79%	
Loans, including loans held for sale (2) (3)	457,548	8,972	7.78%	
Total interest earning assets	550,205	10,124	7.30%	
Cash and due from banks	18,355			
Allowance for loan losses	(5,140)			
Premises and equipment, net	11,897			
Intangible assets	8,569			
Other assets	2,920			
Total assets	$ 586,806			$
Liabilities and shareholders' equity				
Interest bearing deposits				
Savings	$ 89,637	$ 639	2.83%	$
Interest bearing transaction accounts	71,806	281	1.55%	
Time deposits	257,313	3,070	4.73%	
Total interest bearing deposits	418,756	3,990	3.78%	
Short-term borrowings	19,955	193	3.84%	
Long-term debt	29,835	489	6.50%	
Total interest bearing liabilities	468,546	4,672	3.96%	
Noninterest bearing demand deposits	60,744			
Other liabilities	2,752			
Shareholders' equity	54,764			
Total liabilities and shareholders' equity	$ 586,806			$
Interest rate spread			3.34%	
Net interest income and net yield on earning assets		$ 5,452	3.93%	

Interest free funds supporting earning assets	$ 81,659	$

(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 average balances and income from such loans is recognized on a cash basis.

Nine Months Ended September 30, 2007 and 2006

Net interest income for the nine months ended September 30, 2007 decreased by $127,000, or .8% from the amount for the same period of 2006. Both interest income and interest expense increased significantly in the 2007 period due to higher market interest rates throughout the 2007 period and higher amounts of interest earning assets and interest-bearing liabilities.

For the 2007 year-to-date period, the interest rate spread and net yield on earning assets both decreased as compared with the same period of 2006. Interest rate spread decreased by 19 basis points and net yield on earning assets decreased by 16 basis points. These decreases resulted primarily from higher rates paid on interest-bearing liabilities, which increased 46 basis points. Rates earned on earning assets increased by 27 basis points. Average amounts of interest earning assets, especially loans and taxable investment securities, were higher in the 2007 period.

Average Balances, Yiel
Nine Months Ended Sep

	2007			
	Average Balances	Interest Income / Expense	Yields / Rates (1)	A Ba
	(Dollars in t			
Assets				
Interest bearing deposits with other banks	$ 1,340	$ 51	5.09%	
Investment securities - taxable	82,031	3,031	4.94%	
Investment securities - tax exempt (2)	4,653	127	3.65%	
Federal funds sold	9,104	342	5.02%	
Loans, including loans held for sale (2) (3)	441,626	25,757	7.80%	
Total interest earning assets	538,754	29,308	7.27%	
Cash and due from banks	17,560			
Allowance for loan losses	(5,351)			
Premises and equipment, net	10,384			
Intangible assets	6,818			

Other assets	7,804		
Total assets	$575,969		
Liabilities and shareholders' equity			
Interest bearing deposits			
Savings	$ 91,791	$ 1,938	2.82%
Interest bearing transaction accounts	73,887	813	1.47%
Time deposits	248,462	8,649	4.65%
Total interest bearing deposits	414,140	11,400	3.68%
Short-term borrowings	16,642	496	3.98%
Long-term debt	28,617	1,401	6.55%
Total interest bearing liabilities	459,399	13,297	3.87%
Noninterest bearing demand deposits	59,841		
Other liabilities	2,297		
Shareholders' equity	54,073		
Total liabilities and shareholders' equity	$575,610		
Interest rate spread			3.40%
Net interest income and net yield on earning assets		$16,011	3.97%

(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 average balances and income from such loans is recognized on a cash basis.

Provision and Allowance for Loan Losses

The provision for loan losses for the 2007 three month period was $375,000, a decrease of $290,000, or 43.6%, from $665,000 for the same period of 2006. The provision for loan losses decreased to $925,000 for the 2007 nine month period from $1,955,000 for the 2006 nine month period, a decrease of

$1,030,000 or 52.7%. Although the provisions for loan losses were lower for each of the 2007 periods, charge-offs and higher levels of nonperforming and potential problem loans continue to affect the Company's allowance and provision for loan losses. Management continues to use new information about these loans to refine its estimates of the loans' ultimate collectibility and the adequacy of its loan loss allowance.

Net recoveries during the nine months ended September 30, 2007 were $290,000, compared with net charge-offs of $4,542,000 for the same period of 2006. The coverage ratio (allowance for loan losses divided by nonperforming loans) was .79x as of September 30, 2007 and .94x as of December 31, 2006.

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

	Nine Months EndedEnded September 30, 2007
	(Doll
Allowance at beginning of period	$ 4,662
Provision for loan losses	925
Net recoveries or (charge-offs)	290
Allowance at end of period	$ 5,877
Allowance as a percentage of loans outstanding	1.29%
Loans at end of period	$ 456,742

Following is a summary of nonperforming loans as of September 30, 2007 and December 31, 2006:

	Septe 2
Non-performing loans	
Nonaccrual loans	$
Past due 90 days or more and still accruing	
Total	$
Nonperforming loans as a percentage of:	
Loans outstanding	
Allowance for loan losses	

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

	Nonaccrual Loans	90 Days or More Past Due and Still Accruing	Total Nonperforming Loans	Percentag of Total Loans
			(Dollars in thousands)	
December 31, 2005	$ 11,651	$ 729	$ 12,380	2.99%
Net change	3,128	949	4,077	
March 31, 2006	14,779	1,678	16,457	3.94%
Net change	(3,628)	(1,476)	(5,104)	

June 30, 2006	11,151	202	11,353	2.71%
Net change	(2,483)	175	(2,308)	
September 30, 2006	8,668	377	9,045	2.19%
Net change	(3,954)	(145)	(4,099)	
December 31, 2006	4,714	232	4,946	1.21%
Net change	1,612	(65)	1,547	
March 31, 2007	6,326	167	6,493	1.53%
Net change	(1,169)	(167)	(1,336)	
June 30, 2007	5,157	-	5,157	1.15%
Net change	2,323	-	2,323	
September 30, 2007	$ 7,480	$ -	$ 7,480	1.64%

During the third quarter of 2007, non-performing loans increased by $2,323,000 and potential problem loans increased by $1,332,000. The most significant component of the increase in non-performing assets was the addition of a single $1.6 million credit from our Florence region. This is a real estate secured loan, which management estimates has a low potential for loss. Subsequent to the end of the quarter, the loan was brought current. The major components of the increase in potential problem loans were two large, secured, performing commercial credits with technical weaknesses.

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

Noninterest Income

Noninterest income for the 2007 third quarter decreased $219,000, or 11.2%, from the $1,958,000 reported for the same 2006 period. Mortgage loan brokerage income for the 2007 third quarter decreased by $435,000, or 45.2%, from the $963,000 recorded in the 2006 period. This decrease was attributable to lower volumes of loan originations resulting from a slowdown in demand for residential mortgage loans and overall mortgage industry conditions.

18

For the nine months ended September 30, 2007, noninterest income was $379,000, or 6.4% more than for the first nine months of 2006 primarily because the Company recognized a gain of $712,000 on the sale of other investments during the 2007 second quarter.. Mortgage loan brokerage income decreased $860,000, or 30.9%, for the 2007 nine month period, as discussed above.

Noninterest Expenses

Noninterest expenses for the third quarter of 2007 were $505,000, or 10.3%, higher than the amounts reported for the same period of 2006. The Company provided $572,000 during the third quarter of 2007 related to estimated losses on warranty liabilities on prior sales of mortgage loans. The Company provided

$10,000 for such liabilities in the 2006 third quarter.

Noninterest expenses for the first nine months of 2007 were $1,961,000, or 13.8%, more than for the same period of 2006. Salaries and employee benefits expenses increased primarily because of the addition of new loan officers in the Midlands, Florence and the mortgage division and the addition of a new officer in the IT area. These increases occurred over the course of 2006 and early 2007.

Also, during the 2007 nine month period, the Company provided $716,000 for its warranty obligations with respect to loans sold by the mortgage division, an increase of $659,000 from the 2006 amount and an increase of $500,000 over the budget amount for 2007. The reason for the increase over budget was management's identification during the third quarter of 2007 of approximately $1.1 million in loans, 12 accounts, originated by the mortgage division, mostly during 2006, as to which there was a significant possibility that investors might question the original representations and warranties and sufficient reason might exist for repurchase. These loans were primarily originated by the wholesale area of the mortgage division. After review, management estimated the potential loss associated with these loans at approximately $500,000 and during the quarter this amount was provided.

During the summer of 2006 management of the Bank reorganized the wholesale operation of the mortgage division and severely limited originations of non-conventional mortgage loan originations. Management believes these actions significantly reduce the possibility of future substantial loss provisions related to warranty obligations.

Despite adverse local and macroeconmic events in the mortgage arena, the division continues to generate an earnings stream from originating traditional one to four family residential mortgage loans, albeit at a lower overall volume. Further, during 2007 the division has generated a net increase of more than $15 million in real estate secured equity lines and lot loans for the Bank's portfolio.

Income Taxes

Income tax expense was $197,000 less in the 2007 third quarter than for the 2006 period. Income tax expense for the 2007 nine month period was $251,000 less than for the same period of 2006. Both decreases are attributable to lower amounts of income before income taxes in the 2007 periods.

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 lending activities. Those sources are supplemented by long-term borrowings from the Federal Home Loan Bank of Atlanta and the proceeds of issuing subordinated debentures. Cash and amounts due from banks and federal funds sold are CBI's primary sources of asset liquidity. These funds provide a cushion against short-term fluctuation in cash flow from both loans and deposits. Securities available-for-sale are CBI's principal source of secondary asset liquidity. However, the availability of this source is limited by pledging commitments for public deposits and securities sold under agreements to repurchase, and is influenced by market conditions.

CBI and the Bank also maintain various federal funds lines of credit with correspondent banks and are able to borrow from the Federal Home Loan Bank of Atlanta ("FHLB") and the Federal Reserve Bank's discount window.

Total deposits as of September 30, 2007 were $471,432,000, a decrease of $12,189,000, or 2.5%, from the amount as of December 31, 2006. During the nine months ended September 30, 2007, time deposits increased by $11,104,000, with approximately 95% of that growth taking the form of time deposits issued in denominations of $100,000 or more. Approximately $5,006,000 of brokered deposits matured and were paid out during the third quarter of 2007 and were replaced by a short-term advance of $5,000,000 from the Federal Home Loan Bank of Atlanta. As of September 30, 2007, the Bank had obtained short-term borrowings, federal funds purchased, from a correspondent bank in the amount of $10,180,000. As of September 30, 2007 the loan to deposit ratio, excluding loans held for sale, was 96.9%, compared with 84.7% at December 31, 2006 and 87.5% at September 30, 2006.

The 2007 decline in deposits was primarily the result of an effort to reduce high cost time deposits and the cash flow requirements of local government customers. Management anticipates that year end property tax collections will result in some increase in government deposits over current levels. Management has addressed the Bank's liquidity requirements by selective use of brokered deposits, long and short-term advances from the Federal Home Loan Bank, federal funds purchased, and targeted deposit products. In addition, during the fourth quarter of 2007, management is considering the sale of approximately $16 million in assets from the loan portfolio, representing approximately 60 real estate secured loans. If completed, this sale is expected to have a positive impact on liquidity, reduce the potential problem loan totals by approximately $8 million, and have only a nominal impact on earnings.

Management believes CBI's 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.

20

During the first quarter of 2004, CBI sponsored the creation of a Trust that issued $10,000,000 in trust preferred securities. The Trust invested the proceeds of this issuance and $310,000 of capital provided by CBI into $10,310,000 of junior subordinated debentures due in 2034 ("Debentures") issued by CBI. Interest payments on the Debentures are due quarterly at a variable interest rate. CBI used the proceeds of the Debentures to repay certain pre-existing debt obligations, to enhance the capital position of two of its former subsidiary banks, to provide an additional funding mechanism for its mortgage loan brokerage activities, and for other general corporate purposes. Under current regulatory guidelines, the trust preferred securities issued by the Trust are includible in the Company's Tier 1 capital for risk-based capital purposes.

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

	September 30, 2007		
	Tier 1	Total Capital	Leverage
Community Bankshares, Inc.	12.85%	14.11%	10.03%
Community Resource Bank, N.A.	11.39%	12.64%	8.91%
Minimum "well capitalized" requirement	6.00%	10.00%	6.00%
Minimum requirement	4.00%	8.00%	5.00%

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

During the third quarter of 2007 the Board of Directors approved a stock repurchase program that authorizes the Company to buy up to 500,000 shares of its common stock. During the quarter, the plan repurchased 42,100 shares at a total cost of $607,000. Shares purchased under the program are cancelled and become authorized but unissued. Management anticipates that the judicious use of this program will have a positive impact on earnings per share and will not have a material adverse effect on capital.

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

Commitments

CBI's banking and mortgage brokerage subsidiaries are parties to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their 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 are used for on-balance-sheet instruments.

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

	September 30, 2007
	(Dollars in thousands)
Loan commitments	$71,683
Standby letters of credit	2,095

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

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support private borrowing arrangements. All letters of credit are short-term guarantees. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Generally, collateral supporting those commitments is obtained 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 was begun in the second quarter of 2007 and the office is expected to open for business early in 2008. Approximately $643,000 of the estimated $830,000 construction cost has been expended through early November 2007.

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 the Bank's accounting for such commitments. The Bank 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 the Bank issues its commitments and the time that the loans close and are sold, the Bank is subject to variability in the selling prices related to those commitments due to changes in market rates of interest. However, the Bank 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. The Bank generally enters into such forward sales contracts at the same time that rate lock commitments are issued. These arrangements effectively insulate the Bank 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 September 30, 2007, and the estimated fair values of those financial instruments included in other assets and liabilities in the balance sheet as of that date.

Rate lock commitments to potential borrowers
  to originate mortgage loans to be held for sale ....
Forward sales contracts with investors
  of mortgage loans to be held for sale ....

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 September 30, 2007, CBI is positioned so that net interest income would increase $192,000 and net income would increase $120,000 in the next twelve months if interest rates declined 100 basis points. Conversely, net interest income would decline $8,000 and net income would decline $5,000 in the next twelve months if interest rates increased 100 basis points. Computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates and loan prepayment, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions CBI and its customers could undertake in response to changes in interest rates.

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

Item 4T. Controls and Procedures

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

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

PART II--OTHER INFORMATION

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

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.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) of s yet unde
8/1/07 - 8/31/07	42,100	$14.41	42,100	
9/1/07 - 9/30/07	-	$ -	-	
	------	------	------	
Total	42,100	$14.41	42,100	

Item 6. Exhibits

3-2	Amended Bylaws (incorporated by reference to Form 8-K filed August 28, 2007)
31-1	Rule 13a-14(a)/15d-14(a) Certification of principal executive officer
31-2	Rule 13a-14(a)/15d-14(a) Certification of principal financial officer
32	Certifications Pursuant to 18 U.S.C. Section 1350

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATED: November 13, 2007

COMMUNITY BANKSHARES, INC.

By: s/Samuel L. Erwin

Samuel L. Erwin
Chief Executive Officer

By: s/William W. Traynham

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

EXHIBIT INDEX

3-2	Amended Bylaws (incorporated by reference to Form 8-K filed August 28, 2007)
31-1	Rule 13a-14(a)/15d-14(a) Certification of principal executive officer
31-2	Rule 13a-14(a)/15d-14(a) Certification of principal financial officer

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