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COMMUNITY BANKSHARES INC /SC/  
Form 10-Q  
August 07, 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 June 30, 2008                      Commission File No. 000-22054

COMMUNITY BANKSHARES, INC.

-----  
(Exact name of registrant as specified in its charter)

South Carolina  
-----  
(State or other jurisdiction of  
incorporation or organization)

57-0966962  
-----  
(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  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                              Smaller reporting company      
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's

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classes of common stock, as of the latest practicable date: Common Stock, no par or stated value, 4,450,556 shares outstanding on July 15, 2008.

COMMUNITY BANKSHARES, INC.

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PART I - FINANCIAL INFORMATION

Item 1. - Financial Statements

COMMUNITY BANKSHARES, INC.  
Consolidated Balance Sheets

Assets

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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 - 4,450,556 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.

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	Three Months -----	
	2008	2007
	-----	-----
	(Dollars in thousands)	
Interest and dividend income		
Loans, including fees .....	\$ 7,728	\$ 8,621
Interest bearing deposits with other banks .....	1	1
Debt securities .....	929	98
Dividends .....	63	4
Federal funds sold .....	89	8
	-----	-----
Total interest and dividend income .....	8,810	9,750
	-----	-----
Interest expense		
Deposits		
Time deposits \$100M and over .....	1,055	1,081
Other deposits .....	1,823	2,698
	-----	-----
Total interest expense on deposits .....	2,878	3,779
Short-term borrowings .....	29	18
Long-term debt .....	461	47
	-----	-----
Total interest expense .....	3,368	4,434
	-----	-----
Net interest income .....	5,442	5,316
Provision for loan losses .....	540	17
	-----	-----
Net interest income after provision .....	4,902	5,141
	-----	-----
Noninterest income		
Service charges on deposit accounts .....	892	93
Mortgage loan brokerage income .....	473	74
Net securities gains .....	-	-
Gains on sales of other investments .....	-	71
Other .....	332	37
	-----	-----
Total noninterest income .....	1,697	2,76
	-----	-----
Noninterest expenses		
Salaries and employee benefits .....	2,918	3,08
Premises and equipment .....	578	61
Advertising .....	188	13
Supplies .....	97	11
Other .....	1,320	1,65
	-----	-----
Total noninterest expenses .....	5,101	5,60
	-----	-----
Income before income taxes .....	1,498	2,30
Income tax expense .....	571	83
	-----	-----
Net income .....	\$ 927	\$ 1,47
	=====	=====
Per share		

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Net income .....	\$ 0.21	\$ 0.3
Net income - diluted .....	0.20	0.3
Cash dividends declared .....	0.12	0.1

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		Retain
	Number of Shares	Amount	Earnings
	-----	-----	-----
		(Dollars in thousands,	
Balance, January 1, 2007 .....	4,441,220	\$ 30,603	\$ 22
Comprehensive income			
Net income .....	-	-	2
Unrealized holding gains and (losses)			
on available-for-sale securities arising			
during the period, net of income taxes of \$174 ...	-	-	
Reclassification adjustment for losses (gains)			
realized in income, net of income taxes of \$1 ....	-	-	
Total other comprehensive income (loss) ... .....	-	-	
Total comprehensive income .....	-	-	
Share-based compensation .....	-	27	
Proceeds of sale of common stock .....	500	8	
Exercise of employee stock options .....	41,836	406	
Cash dividends declared, \$.24 per share .....	-	-	(1
Balance, June 30, 2007 .....	<u>4,483,556</u>	<u>\$ 31,044</u>	<u>\$ 23</u>
Balance, January 1, 2008 .....	4,446,456	\$ 30,505	\$ 22
Comprehensive income			
Net income .....	-	-	2
Unrealized holding gains and (losses)			
on available-for-sale securities arising			
during the period, net of income taxes of \$711 ...	-	-	
Reclassification adjustment for losses (gains)			
realized in income, net of income taxes of \$12 ...	-	-	
Total other comprehensive income (loss) .....	-	-	

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Total comprehensive income .....	-	-	
Share-based compensation .....	-	18	
Proceeds of sale of common stock .....	10,600	119	
Exercise of employee stock options .....	1,000	11	
Common stock repurchased and cancelled .....	(20,700)	(254)	
Restricted stock grants to employees .....	13,200	-	
Cash dividends declared, \$.24 per share .....	-	-	(1)
	-----	-----	-----
Balance, June 30, 2008 .....	4,450,556	\$ 30,399	\$ 23
	=====	=====	=====

See accompanying notes to unaudited consolidated financial statements.

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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 .....	
Net accretion of securities .....	
Net securities gains .....	
Gains on sales of other investments .....	
Proceeds of sales of loans held for sale .....	
Originations of loans held for sale .....	
Gains on sales of loans held for sale .....	
Decrease in accrued interest receivable .....	
(Increase) decrease in other assets .....	
Gains on sales of foreclosed assets .....	
Decrease in accrued interest payable .....	
Increase (decrease) in 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 .....	

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Net decrease (increase) in loans made to customers .....	
Purchases of premises and equipment .....	
Proceeds from sales and other disposals of premises and equipment .....	
Proceeds from sales of foreclosed assets .....	
Net cash used by investing activities .....	
Financing activities	
Net increase (decrease) in deposits .....	
Net (decrease) increase in short-term borrowings .....	
Proceeds from issuing long-term debt .....	
Repayment of long-term debt .....	
Exercise of employee stock options .....	
Sale of common stock .....	
Common stock repurchased and cancelled .....	
Cash dividends paid .....	
Net cash provided 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.

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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 .....	
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See accompanying notes to unaudited consolidated financial statements.

COMMUNITY BANKSHARES, INC.

Notes to Unaudited Consolidated Financial Statements

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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. Certain amounts in the 2007 financial statements have been reclassified to conform to the current presentation.

Management Opinion - The interim financial statements in this report are unaudited. In the opinion of management, all the adjustments necessary to present a fair statement of the results for the interim period have been made. Such adjustments are of a normal and recurring nature. The results of operations for any interim period are not necessarily indicative of the results to be expected for an entire year. These interim financial statements should be read in conjunction with the annual financial statements and notes thereto contained in the 2007 Annual Report on Form 10-K.

Nonperforming Loans - As of June 30, 2008, there were \$8,976,000 in nonaccrual loans and \$7,000 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 basic and net income per share, assuming dilution, were computed as follows:

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	Three Months	
	2008	2007
	(Dollars in thousands)	
Net income per share, basic		
Numerator - net income .....	\$ 927	\$ 1,470
	=====	=====
Denominator		
Weighted average common shares		
issued and outstanding .....	4,453,360	4,476,229
	=====	=====
Net income per share, basic .....	\$ .21	\$ .33
	=====	=====
Net income per share, assuming dilution		
Numerator - net income .....	\$ 927	\$ 1,470
	=====	=====
Denominator		
Weighted average common shares		



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issued and outstanding .....	4,453,360	4,476,229
Effect of dilutive stock options .....	96,660	49,123
	-----	-----
Total shares .....	4,550,020	4,525,352
	=====	=====
Net income per share, assuming dilution .....	\$ .20	\$ .32
	=====	=====

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

On March 31, 2008, the Company awarded 13,200 shares of restricted stock and 45,650 stock appreciation rights ("SARS") 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. Recognition of compensation expense for these awards began in the second quarter of 2008. Accordingly, \$18,000 of such expenses are included in salaries and employee benefits in the statements of income. The Company's 2007 Equity Compensation Plan provides that in the event of a change in control, such as the pending merger plan with First Citizens discussed below, outstanding and unvested options, SARS, or other types of equity compensation become immediately vested.

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

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Upon repayment or redemption of the Debentures, the Trust will use the proceeds of the transaction to redeem an equivalent amount of trust preferred securities and trust common securities. The Trust's obligations under the trust preferred securities are unconditionally guaranteed by CBI. In accordance with Financial Accounting Standards Board Interpretation 46(R), the Trust is not consolidated in the Company's financial statements.

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

### 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:

Description -----	June 30, 2008 -----	Fair Value Measurement at Re ----- Quoted Prices in Active Markets for Identical Assets (Level 1) -----	Significan Other Observable Inputs (Level 2) -----
(Dollars in thousands)			
Assets			
Securities available-for-sale .....		\$ -	\$78,463
Derivatives .....		-	7
Liabilities			
Derivatives .....		-	7

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.

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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 -----	June 30, 2008 -----	Fair Value Measurement at Repo ----- Quoted Prices in Active Markets for Identical Assets (Level 1) -----	Significant Other Observable Inputs (Level 2) -----
(Dollars in thousands)			
Collateral dependent impaired loans	\$	-	\$ -
Foreclosed Assets		-	813
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 engaged 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 \$1,168,000 as of June 30, 2008.

Foreclosed assets consist of assets acquired through, or in lieu of, loan foreclosure, and 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.

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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 two quarters of 2008, \$123,000 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.

### Proposed Merger Transaction

On June 25, 2008, the Company, Community Resource Bank, N. A., (CRB) and First Citizens Bank and Trust Company, Inc., (FCB) a wholly-owned subsidiary of First Citizens Bancorporation, Inc. executed a definitive agreement to merge, subject to approvals by regulatory agencies and the Company's shareholders. The transaction, which is expected to close in the fourth quarter of 2008, requires FCB to pay the Company's shareholders \$21.00 in cash for each outstanding share of the Company's common stock. FCB will be the surviving corporation of the merger, and the Company and CRB will cease to exist.

### 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.

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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:

- o future economic and business conditions;
- o lack of sustained growth in the economies of the Company's market areas;
- o government monetary and fiscal policies;
- o 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;
- o 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;
- o credit risks;
- o higher than anticipated levels of defaults on loans;
- o misperceptions by depositors about the safety of their deposits;
- o capital adequacy;
- o the failure of assumptions underlying the establishment of the allowance for loan losses and other estimates, including the value of collateral securing loans;
- o availability of liquidity sources;
- o 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;
- o changes in laws and regulations, including tax, banking and securities laws and regulations;
- o changes in accounting policies, rules and practices;

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- o changes in technology or products may be more difficult or costly, or less effective, than anticipated;
- o the effects of war or other conflicts, acts of terrorism or other catastrophic events that may affect general economic conditions and economic confidence; and
- o 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.

### 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" under Item 7 - Management's Discussion and Analysis of Financial Conditions and Results of Operations in CBI's Annual Report on Form 10-K for 2007 for a

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detailed description of CBI's estimation process and methodology related to the allowance for loan losses.

### CHANGES IN FINANCIAL CONDITION

The first six months of 2008 were very difficult for most financial institutions. The real estate-related credit crisis, coupled with the significant actions by the Federal Reserve Board to lower short-term interest rates, made this period challenging. Higher levels of uncertainty have become the normal state of affairs. In such an environment, opportunities to lend money prudently decreased significantly. Yields on securities issued by government agencies and government-sponsored enterprises, which would ordinarily be considered safe investments, continue to be depressed and offer yields that are, for short-term instruments, too low to generate improvement in net interest margins.

In response to these conditions, the Company tightened its loan underwriting standards. These measures, combined with lower levels of economic activity, led to a decrease of \$17,771,000, or 3.8%, in loans receivable during the six months ended June 30, 2008. Loans receivable were 82.1% and 86.2% of earning assets as of June 30, 2008 and December 31, 2007, respectively. To offset the reduction in loan interest income the Company increased its portfolio of available-for-sale securities by \$20,595,000 during the 2008 six-month period. Available-for-sale securities were 14.4% and 10.8% of earning assets as of June 30, 2008 and December 31, 2007, respectively. Investments in mortgage-backed securities issued by government-sponsored enterprises (FNMA and FHLMC) increased by approximately \$30,000,000 and securities issued by government agencies decreased by approximately \$9,500,000. Despite an increase in the weighted-average maturity of the available-for-sale portion of the investment portfolio from 1.39 years at December 31, 2007 to 5.32 years at June 30, 2008, that portfolio's weighted average yield decreased by 27 basis points during the period. Federal funds sold increased by \$559,000 and other investments increased by \$1,883,000 during the six months.

Deposits increased by only \$633,000, or .13%, from the December 31, 2007 amount, short-term borrowings decreased by \$3,560,000, or 36.0%, and long-term debt increased by \$12,495,000, or 42.1%. Management believes it is likely that market interest rates will begin to increase later in 2008. Consequently, the Company chose to secure relatively longer-term financing by borrowing \$15,000,000 in two convertible advances from the Federal Home Loan Bank of Atlanta ("FHLB") in February 2008. One advance of \$7.5 million has an initial fixed rate until February 2009, after which it may be converted to variable at the option of the FHLB on a quarterly basis. The other advance of \$7.5 million has an initial fixed rate until February 2010, at which time it may be converted to variable at the option of the FHLB on a one time basis. If the FHLB exercises its options to convert the instruments to variable rates, the Company has the right to prepay the advances without penalty on the initial reset date or any subsequent reset date. The weighted average rate paid for these funds was 2.35%, or about 149 basis points less than the average rate paid for time deposits during the second quarter of 2008. The Company has pre-existing advances from the FHLB totaling \$16,700,000 which have a weighted average rate of 5.16%. Of those advances, \$14,700,000 remains convertible to variable rates at the option of the FHLB.

### RESULTS OF OPERATIONS

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### Earnings Performance

Three Months Ended June 30, 2008 and 2007

For the quarter ended June 30, 2008, CBI recorded net income of \$927,000 compared with \$1,470,000 for the comparable period of 2007. The \$543,000 decrease is attributable primarily to \$712,000 of non-recurring gains on the sale of other investments in the 2007 period, a \$271,000 decrease in mortgage loan brokerage income and a \$365,000 increase in the provision for loan losses. Partially offsetting these items were decreases of \$500,000 in noninterest expenses and \$267,000 in income tax expense.

		Summary Income Sta	
For the Three Months Ended June 30,	2008	2007	Doll
		(Dollars in thous	
Interest income .....	\$ 8,810	\$ 9,751	\$
Interest expense .....	3,368	4,434	(
	5,442	5,317	
Net interest income .....	540	175	
Provision for loan losses .....	1,697	2,767	(
Noninterest income .....	5,101	5,601	
Noninterest expenses .....	571	838	
Income tax expense .....	\$ 927	\$ 1,470	\$
Net income .....	=====	=====	

Six Months Ended June 30, 2008 and 2007

CBI's consolidated net income for the six months ended June 30, 2008 was \$2,028,000, a decrease of \$447,000 from the \$2,475,000 recorded for the same period of 2007. Primarily responsible for this decline were a \$460,000 increase in the provision for loan losses in the 2008 period and nonrecurring gains of \$712,000 realized on the sale of other investments in the 2007 period. Partially offsetting those effects were a \$295,000 increase in net interest income and reductions in the 2008 amounts of noninterest expenses and income tax expense totaling \$628,000 and \$218,000, respectively.

		Summary Income Sta	
For the Six Months Months Ended June 30,	2008	2007	Doll
		(Dollars in thous	
Interest income .....	\$18,248	\$19,184	\$
Interest expense .....	7,394	8,625	
	10,854	10,559	
Net interest income .....	1,010	550	
Provision for loan losses .....	3,464	4,592	
Noninterest income .....	10,087	10,715	
Noninterest expenses .....	1,193	1,411	
Income tax expense .....	\$ 2,028	\$ 2,475	\$
Net income .....	=====	=====	



=====

=====

## 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.

The Federal Reserve Board lowered the federal funds interest rate by 100 basis points during the last four months of 2007 and by 200 basis points during the first quarter of 2008. Because most of the Company's earning assets and interest-bearing liabilities are relatively short-term instruments, yields on the various categories of interest-earning assets and rates paid for interest-bearing liabilities fell during those periods.

## Three Months Ended June 30, 2008 and 2007

Net interest income for the three months ended June 30, 2008 was \$5,442,000, an increase of \$125,000, or 2.4%, over the amount reported for the second quarter of 2007. Interest income and interest expense for the 2008 quarter were both significantly lower than during the same period of 2007, primarily due to lower interest rates earned on, or paid for, related assets and liabilities.

The average yield on earning assets was 6.44% for the second quarter of 2008, compared with 7.30% for the second quarter of 2007. The average cost of time deposits fell to 3.84% for the second quarter of 2008, compared with 4.68% for the same period of 2007 and the average cost of all interest-bearing liabilities was 2.88% for the 2008 quarter and 3.89% for the same period of 2007. Accordingly, the interest rate spread (interest earning assets yield minus the rate paid for interest-bearing liabilities) for the 2008 second quarter widened to 3.56%, or 15 basis points more than for the same period of 2007. Net yield on earning assets (net interest income divided by average interest earning assets) for the 2008 quarter was 3.98%, unchanged from the same period of 2007.

The mix of average earning assets and average interest-bearing liabilities changed slightly since the second quarter of 2007 as shown in the table "Average Balances, Yields and Rates Three Months Ended June 30, 2008 and 2007." Average amounts of interest earning assets were \$14,328,000 higher in the 2008 period than in the 2007 period and the average amounts of interest-bearing liabilities were \$13,011,000 higher in the 2008 three month period.

Average Balances, Yield  
Three Months Ended

-----  
2008  
-----

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	Average Balances -----	Interest Income / Expense -----	Yields / Rates (1) -----	B -----
(Dollars in thousand)				
Assets				
Interest bearing deposits with other banks .....	\$ 1,314	\$ 1	0.31%	
Investment securities - taxable .....	74,900	954	5.12%	
Investment securities - tax exempt (2) .....	4,139	38	3.69%	
Federal funds sold .....	17,216	89	2.08%	
Loans, including loans held for sale (2) (3) ....	452,786	7,728	6.86%	
	-----	-----		
Total interest earning assets .....	550,355	8,810	6.44%	
Cash and due from banks .....	18,378			
Allowance for loan losses .....	(5,935)			
Premises and equipment, net .....	10,823			
Intangible assets .....	6,572			
Other assets .....	7,041			
	-----			
Total assets .....	\$587,234			
	=====			
Liabilities and shareholders' equity				
Interest bearing deposits				
Interest bearing transaction accounts .....	\$ 78,110	\$ 162	0.83%	
Savings .....	84,939	283	1.34%	
Time deposits .....	254,889	2,433	3.84%	
	-----	-----		
Total interest bearing deposits .....	417,938	2,878	2.77%	
Short-term borrowings .....	9,506	29	1.23%	
Long-term debt .....	42,175	461	4.40%	
	-----	-----		
Total interest bearing liabilities ....	469,619	3,368	2.88%	
Noninterest bearing demand deposits .....	61,013			
Other liabilities .....	2,119			
Shareholders' equity .....	54,483			
	-----			
Total liabilities and shareholders' equity .....	\$587,234			
	=====			
Interest rate spread .....			3.56%	
Net interest income and net yield on earning assets .....		\$ 5,442	3.98%	

(1) Yields and rates are annualized.

(2) Yields on tax-exempt securities and loans have not been stated on a tax-equivalent basis.

(3) Nonaccruing loans are included in the average balances and income from such loans is recognized on a cash basis.

Six Months Ended June 30, 2008 and 2007

Net interest income for the six months ended June 30, 2008 increased by \$295,000, or 2.8% over the amount for the same period of 2007. Both interest income and interest expense decreased significantly in the 2008 period. However,

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interest expense decreased further during the period due to the Company's aggressive asset and liability management strategy of lowering rates paid for interest bearing liabilities. For the 2008 year-to-date period, the interest rate spread increased by 9 basis points and the net yield on earning assets decreased by 3 basis points as compared with the same period of 2007.

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	Average Balances, Yield Six Months Ended J			
	2008			
	Average Balances	Interest Income / Expense	Yields / Rates (1)	B
(Dollars in thousand)				
<b>Assets</b>				
Interest bearing deposits with other banks ....	\$ 1,336	\$ 12	1.81%	\$
Investment securities - taxable .....	65,621	1,720	5.27%	
Investment securities - tax exempt (2) .....	4,200	77	3.69%	
Federal funds sold .....	19,845	270	2.74%	
Loans, including loans held for sale (2) (3) ..	458,642	16,169	7.09%	
	-----	-----		
Total interest earning assets .....	549,644	18,248	6.68%	
Cash and due from banks .....	19,405			
Allowance for loan losses .....	(5,780)			
Premises and equipment .....	10,797			
Intangible assets .....	6,603			
Other assets .....	7,115			
	-----			
Total assets .....	\$ 587,784			\$
	=====			=====
<b>Liabilities and shareholders' equity</b>				
<b>Interest bearing deposits</b>				
Interest bearing transaction accounts ...	\$ 78,923	\$ 330	0.84%	\$
Savings .....	85,618	658	1.55%	
Time deposits .....	257,319	5,366	4.19%	
	-----	-----		
Total interest bearing deposits .....	421,860	6,354	3.03%	
Short-term borrowings .....	10,548	88	1.68%	
Long-term debt .....	39,760	952	4.82%	
	-----	-----		
Total interest bearing liabilities ..	472,168	7,394	3.15%	
Noninterest bearing demand deposits .....	59,182			
Other liabilities .....	2,000			
Shareholders' equity .....	54,434			
	-----			
Total liabilities and shareholders' equity .....	\$ 587,784			\$
	=====			=====
Interest rate spread .....			3.53%	
Net interest income and net yield				

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on earning assets ..... \$ 10,854 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 2008 three month period was \$540,000, an increase of \$365,000, or 208.6%, over the \$175,000 recorded for the same period of 2007. The provision for loan losses increased to \$1,010,000 for the 2008 six month period from \$550,000 for the 2007 six month period, an increase of \$460,000 or 83.6%.

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

	Six Months Ended June 30, 2008 -----
Allowance at beginning of period .....	\$ 5,343
Provision for loan losses .....	1,010
Net charge-offs .....	(414)
	-----
Allowance at end of period .....	\$ 5,939
	=====
Allowance as a percentage of loans outstanding .....	1.33%
Loans at end of period .....	\$ 446,268
	=====

(Dol

Following is a summary of non-performing loans as of June 30, 2008 and December 31, 2007:

	June 30, 2008 ----	December 31, 2007 ----
	(Dollars in thousands)	
Non-performing loans		
Nonaccrual loans .....	\$8,976	\$ 6,542
Past due 90 days or more and still accruing .....	7	-
	-----	-----
Total .....	\$8,983	\$ 6,542
	=====	=====
Non-performing loans as a percentage of:		
Loans outstanding .....	2.01%	1.41%
Allowance for loan losses .....	151.25%	122.44%

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The following table shows quarterly changes in nonperforming 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 and which may result in subsequent classification of such loans as non-performing loans.

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	Nonaccrual Loans -----	90 Days or More Past Due and Still Accruing -----	Total Nonperforming Loans -----	Percentage of Total Loans -----
	(Dollars in thousands)			
December 31, 2005 .....	\$ 11,651	\$ 729	\$ 12,380	2.99%
Net change .....	3,128	949	4,077	
March 31, 2006 .....	14,779	1,678	16,457	3.94%
Net change .....	(3,628)	(1,476)	(5,104)	
June 30, 2006 .....	11,151	202	11,353	2.71%
Net change .....	(2,483)	175	(2,308)	
September 30, 2006 .....	8,668	377	9,045	2.19%
Net change .....	(3,954)	(145)	(4,099)	
December 31, 2006 .....	4,714	232	4,946	1.21%
Net change .....	1,612	(65)	1,547	
March 31, 2007 .....	6,326	167	6,493	1.53%
Net change .....	(1,169)	(167)	(1,336)	
June 30, 2007 .....	5,157	-	5,157	1.15%
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%
Net change .....	2,047	(185)	1,862	
June 30, 2008 .....	\$ 8,976	\$ 7	\$ 8,983	2.01%
	=====	=====	=====	

During the second quarter of 2008, nonperforming loans increased by \$1,862,000 while potential problem loans increased by \$2,566,000. The largest component of the increase in nonaccrual loans was a \$900,000 residential construction loan. The remaining increase was composed of a variety of different real estate and commercial loans from which management does not anticipate major additional losses. The increase in potential problem loans is related to the bank's ongoing internal loan review program and the anticipated impact of

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general economic conditions.

Management will continue to monitor the levels of non-performing loans and address the weaknesses in these credits to enhance the ultimate collection or recovery of these assets. Management considers the levels and trends in non-performing assets and potential problem loans in determining how the provision and allowance for loan losses is estimated and adjusted. In the opinion of management, the Company's allowance for loan losses at June 30, 2008 is adequate to provide for losses that may be inherent in the loan portfolio.

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### Noninterest Income

Noninterest income for the 2008 second quarter was \$1,697,000, a decrease of \$1,070,000 from the \$2,767,000 reported for the same 2007 period. The Company realized a one-time \$712,000 gain on the sale of other investments during the 2007 period, primarily from the sale of surplus stock of a correspondent bank which resulted from the merger of the Company's four bank subsidiaries into one bank late in 2006. Mortgage loan brokerage income was \$271,000 lower during the 2008 period.

For the six months ended June 30, 2008, noninterest income decreased \$1,128,000, or 24.6%, from noninterest income of \$4,592,000 for the first six months of 2007. Again, this decrease resulted primarily from the one-time gain from the sale of other investments that occurred in 2007. Mortgage loan brokerage income for the first six months of 2008 decreased \$404,000 compared with the same period of 2007, as originations of such loans decreased by approximately 34.9%, consistent with the overall slowing of the real estate market in the Company's market area and due to the Company's decision in early 2008 to discontinue its wholesale mortgage operation.

### Noninterest Expenses

Noninterest expenses for the second quarter of 2008 decreased by \$500,000, or 8.9%, from the amounts reported for the same period of 2007. Salaries and employee benefits expenses decreased by \$166,000, or 5.4%, in the 2008 period, primarily due to the discontinuation of the mortgage division's wholesale lending operation in early first quarter of 2008.

Noninterest expenses for the first six months of 2008 were \$628,000, or 5.9%, less than for the same period of 2007. Salaries and employee benefits for the 2008 six month period were \$253,000, or 4.2%, less than for the same period of 2007, primarily due to the elimination of the mortgage division's wholesale lending operations. In addition, expenses were reduced by the elimination of loan production costs associated with wholesale lending, notably yield spread payments to brokers. Other factors contributing to the lower noninterest expenses were various non-recurring expenses recorded in 2007 including consulting costs related to preparation of a strategic plan and a deposit related fraud loss. These same factors also impacted the quarterly periods.

### Income Taxes

Income tax expense was \$267,000 lower in the 2008 second quarter than for the 2007 period, as a result of lower taxable income before taxes. Income tax expense for the 2008 six month period was \$218,000 less than for the same period of 2007 due to lower net income before taxes.

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### 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

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

Total deposits as of June 30, 2008 were \$482,340,000, an increase of \$633,000 over the amount as of December 31, 2007. During the first six months of 2008, funds moved from noninterest bearing demand deposit, interest-bearing transaction and savings accounts into time deposit accounts. As of June 30, 2008 the loan to deposit ratio, excluding loans held for sale, was 92.5%, compared with 96.3% at December 31, 2007 and 93.3% at June 30, 2007.

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

### CAPITAL RESOURCES

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

The June 30, 2008 risk-based capital ratios for CBI and the bank are presented in the following table, compared with the "well capitalized" requirement for the bank and minimum ratios under the regulatory definitions and guidelines:

		June 30, 2008	
	Tier 1	Total Capital	Leverage
	-----	-----	-----
Community Bankshares, Inc.	13.42%	14.67%	10.08%
Community Resource Bank	11.85%	13.10%	8.87%
Minimum "well capitalized" requirement	6.00%	10.00%	6.00%
Minimum requirement	4.00%	8.00%	5.00%

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As shown in the table above, each of the capital ratios exceeds the minimum regulatory requirement and the bank exceeds the 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

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derivatives). These transactions involve elements of credit, interest rate and liquidity risk of varying degrees.

Variable Interest Entity

As discussed under "Capital Resources" and in the notes to unaudited consolidated financial statements under "Variable Interest Entity," as of June 30, 2008, CBI held an equity interest in, and guarantees the liabilities of, a non-consolidated variable interest entity, SCB Capital Trust I.

Commitments

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

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

	June 30, 2008
	-----
	(Dollars in thousands)
Loan commitments .....	\$ 62,826
Standby letters of credit .....	1,150

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



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

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### Derivative Financial Instruments

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

Derivative financial instruments are written in amounts referred to as notional amounts. Notional amounts only provide the basis for calculating payments between counterparties and do not represent amounts to be exchanged between parties or a measure of financial risk. The following table includes the notional principal amounts of rate lock commitments and forward sales contracts as of June 30, 2008, and the estimated fair values of those financial instruments included in other assets and liabilities in the balance sheet as of that date.

	June 30, 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 .....	\$ 4,266	\$ (7)
Forward sales contracts with investors of mortgage loans to be held for sale .....	\$ 4,266	\$ 7

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

CBI's Asset/Liability Committee uses a simulation model to assist in achieving consistent growth in net interest income while managing interest rate risk. According to the model, as of June 30, 2008, CBI is positioned so that net interest income would increase \$21,000 and net income would increase \$11,000 in the next twelve months if interest rates rose 100 basis points. Conversely, net interest income would decrease \$21,000 and net income would decrease \$11,000 in the next twelve months if interest rates declined 100 basis points. Computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates and loan prepayment, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions CBI and its customers could undertake in response to changes in interest rates.

As of June 30, 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 Item 7 - 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 quarterly 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.

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PART II--OTHER INFORMATION

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

(c) Purchases of securities

Period	(a) Total Number of Shares Purchased	(b) Average Price per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares That May Y Be Purchas Under th Plans or Programs
4/1/08 - 4/30/08	2,500	\$ 12.85	2,500	437,700
5/1/08 - 5/31/08	4,500	\$ 12.28	4,500	433,200
6/1/08 - 6/30/08	-	\$ -	-	433,200
Total	7,000	\$12.49	7,000	

(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 was originally set to expire on July 30, 2008. However, the program was terminated early under the terms of the Agreement and Plan of Merger entered into with First Citizens Bank and Trust Company, Inc. on June 25, 2008.

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

On Tuesday, May 20, 2008, the shareholders of Community Bankshares, Inc. held their regular annual meeting. At the meeting, one matter was submitted to a vote with results as follows:

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

DIRECTORS	FOR	SHARES VOTED AGAINST OR AUTHORITY WITHHELD
Three year term:		
Thomas B. Edmunds	3,341,862	14,888
Henrietta C. Guthrie	3,341,900	14,850
Wm. Reynolds Williams	3,226,450	130,300
Charles E. Fienning	3,341,651	15,099
One year term:		
James Richard Williamson	3,341,860	14,890

The following directors continue to serve until the expiration of their terms at the annual meetings to be held in the years indicated and were not

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voted on at the 2008 annual meeting: E. J. Ayers, Jr. - 2009; Alvis J. Bynum - 2009; J. V. Nicholson, Jr. - 2009; Charles P. Thompson, Jr. - 2009; Samuel L.

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Erwin - 2010; Anna O. Dantzler - 2010; Richard L. Havekost - 2010; and Samuel F. Reid, Jr. - 2010.

Item 6. Exhibits

Exhibits	2	Agreement and Plan of Merger, dated June 25, 2008, by and among Community Bankshares, Inc., Community Resource Bank, N. A., and First Citizens Bank and Trust Company, Inc. (Incorporated by reference to Registrant's Form 8-K filed July 1, 2008)
	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

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SIGNATURES

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

DATED: August 7, 2008

COMMUNITY BANKSHARES, INC.

By: s/ Samuel L. Erwin

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Samuel L. Erwin  
Chief Executive Officer

By: s/ William W. Traynham

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

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EXHIBIT INDEX

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