COMMUNITY BANKSHARES INC /SC/
Form 10-Q
May 13, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2005 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.)

791 Broughton Street
Orangeburg, South Carolina 29115

(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 an accelerated filer (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, 4,404,303 shares outstanding on May 3, 2005.

COMMUNITY BANKSHARES, INC.

FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. - Financial Statements

COMMUNITY BANKSHARES, INC.
Consolidated Balance Sheets

Assets

Cash and due from banks	
Federal funds sold	
Total cash and cash equivalents	
Interest-bearing deposits with other banks	
Securities available-for-sale	
Securities held-to-maturity (estimated fair value $1,875 for 2005 and $1,907 for 2004)	
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
Non-interest 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 - 4,403,016 for 2005 and 4,390,784 for 2004 ....
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

	(Unaudited) Three Months Ended March 31,	
	2005	2004
	(Dollars in thousands,	

	except per share)	
Interest and dividend income		
Loans, including fees	$ 6,614	$ 5,331
Interest-bearing deposits with other banks	8	4
Debt securities	437	496
Dividends	24	19
Federal funds sold	68	58
Total interest and dividend income	7,151	5,908
Interest expense		
Deposits		
Time deposits $100M and over	527	313
Other deposits	1,208	919
Total interest expense on deposits	1,735	1,232
Short-term borrowings	43	105
Long-term debt	438	303
Total interest expense	2,216	1,640
Net interest income	4,935	4,268
Provision for loan losses	450	233
Net interest income after provision	4,485	4,035
Noninterest income		
Service charges on deposit accounts	762	845
Mortgage brokerage income	794	749
Net securities gains or (losses)	(10)	(4)
Other	221	256
Total noninterest income	1,767	1,846
Noninterest expenses		
Salaries and employee benefits	2,278	2,111
Premises and equipment	535	491
Other	1,306	1,131
Total noninterest expenses	4,119	3,733
Income before income taxes	2,133	2,148
Income tax expense	773	763
Net income	$ 1,360	$ 1,385
Per share		
Net income	$ 0.31	$ 0.32
Net income - diluted	0.30	0.31
Cash dividends declared	0.10	0.10

See accompanying notes to unaudited consolidated financial statements.

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

(Unaudited)

	Common Stock Number of Shares	Common Stock Amount	R E
		(Dollars in thou	
Balance, January 1, 2004	4,331,460	$ 29,402	$
Comprehensive income			
Net income	-	-	
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of $171	-	-	
Reclassification adjustment for losses (gains) realized in income, net of income taxes of $1	-	-	
Total other comprehensive income	-	-	
Total comprehensive income	-	-	
Exercise of employee stock options	4,652	45	
Cash dividends declared, $.10 per share	-	-	
Balance, March 31, 2004	4,336,112	$ 29,447	$
Balance, January 1, 2005	4,390,784	$ 30,042	$
Comprehensive income			
Net income	-	-	
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of $203	-	-	
Reclassification adjustment for losses (gains) realized in income, net of income taxes of $3	-	-	
Total other comprehensive income (loss)	-	-	
Total comprehensive income	-	-	
Exercise of employee stock options	12,232	140	
Cash dividends declared, $.10 per share	-	-	

Balance, March 31, 2005	4,403,016	$ 30,182	$
	=========	=========	===

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 (used) by operating activities
    - Depreciation and amortization ....
    - Net amortization of securities ....
    - Provision for loan losses ....
    - Net securities losses ....
    - Proceeds of sales of loans held for sale ....
    - Originations of loans held for sale ....
    - (Increase) decrease in accrued interest receivable ....
    - Decrease (increase) in other assets ....
    - Gains on sales of other real estate ....
    - Increase in accrued interest payable ....
    - Increase in other liabilities ....

Net cash provided (used) 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 available-for-sale securities ....
- Purchases of other investments ....
- Net increase in loans made to customers ....
- Purchases of premises and equipment ....
- Proceeds from sales of other real estate ....

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

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

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

Increase (decrease) in cash and cash equivalents ....
Cash and cash equivalents, beginning of period ....

Cash and cash equivalents, end of period ....

Supplemental disclosures of cash flow information
Cash payments for interest ....

Cash payments for income taxes ....

Supplemental disclosures of non-cash investing activities
Transfers of loans receivable to other real estate ....

See accompanying notes to unaudited consolidated financial statements.

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Notes to Unaudited Consolidated Financial Statements

Accounting Principles - A summary of significant accounting policies and the audited financial statements for 2004 are included in Community Bankshares, Inc.'s (the "Company" or "CBI") Annual Report on Form 10-K for the year ended December 31, 2004.

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 2004 Annual Report on Form 10-K.

Nonperforming Loans - As of March 31, 2005, there were $5,059,000 in nonaccrual loans and $353,000 in loans 90 or more days past due and still accruing interest.

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

	(Unaudited) Three Months Ended March 31, 2005	2004
	(Dollars in thousands, except per share amounts)	
Net income per share, basic		
Numerator - net income	$ 1,360	$ 1,385
Denominator		
Weighted average common shares issued and outstanding	4,394,078	4,333,718
Net income per share, basic	$ .31	$ .32
Net income per share, assuming dilution		
Numerator - net income	$ 1,360	$ 1,385
Denominator		
Weighted average common shares issued and outstanding	4,394,078	4,333,718
Effect of dilutive stock options	102,720	142,560
Total shares	4,496,798	4,476,278
Net income per share, assuming dilution ..	$ .30	$ .31

Stock Based Compensation - On April 14, 2005, the Securities and Exchange Commission adopted a rule amending the compliance date for the adoption of Statement of Accounting Standards No. 123(R)

until the first interim or annual reporting period of the registrant's first fiscal year beginning on or after June 15, 2005. The Company has 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. Options issued under the Company's plans have no intrinsic value at the grant date and no compensation cost is recognized in accordance with APB No. 25. Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation," requires 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. The Company has adopted and intends to continue using the disclosure provisions of SFAS No. 123, as amended, until the required adoption of the provisions of SFAS 123(R) on

January 1, 2006. Had compensation cost for the Company's stock option plan been determined based on the fair value as of the grant dates for awards under the plans consistent with the method prescribed by SFAS No. 123, the Company's net income and earnings per share would have been adjusted to the pro forma amounts indicated below:

	(Unaudited) Three Months Ended March 31, 2005	2004
	(Dollars in thousands, except per share amounts)	
Net income, as reported	$ 1,360	$ 1,385
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of any related tax effects	83	214
Pro forma net income	$ 1,277	$ 1,171
Net income per share, basic		
As reported	$ 0.31	$ 0.32
Pro forma	0.29	0.27
Net income per share, assuming dilution		
As reported	$ 0.30	$ 0.31
Pro forma	0.28	0.26

Variable Interest Entities - On March 8, 2004, CBI sponsored the creation of a Delaware trust, SCB Capital Trust I (the "Trust"), and is the sole owner of the common securities issued by the Trust. On March 10, 2004, the Trust issued $10,000,000 in floating rate capital securities. The proceeds of this issuance, and the amount of CBI's capital investment, were used to acquire $10,310,000 principal amount of CBI's floating rate junior subordinated deferrable interest debt securities ("Debentures") due April 7, 2034, which securities, and the accrued interest thereon, now constitute the Trust's sole assets. The interest rate associated with the debt securities, and the distribution rate on the common securities of the Trust, was established initially at 3.91% and is adjustable quarterly at 3 month LIBOR plus 280 basis points. The index rate (LIBOR) may not be lower than 1.11%. CBI may defer interest payments on the Debentures for up to twenty consecutive quarters, but not beyond the stated maturity date of the Debentures. In the event that such interest payments are deferred by CBI, the Trust may defer distributions on the common securities. In such an event, CBI would be restricted in its ability to pay dividends on its common stock and perform under other obligations that are not senior to the junior subordinated Debentures.

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

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

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 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 Annual Report on Form 10-K.

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 four community banks 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 2004 for a detailed description of CBI's estimation process and methodology related to the allowance for loan losses.

RESULTS OF OPERATIONS

Earnings Performance

For the quarter ended March 31, 2005, CBI earned consolidated net income of $1,360,000, compared with $1,385,000 for the comparable period of 2004. This represents a decrease of $25,000 or 1.8%. Basic earnings per share were $.31 in the 2005 period, compared with $.32 for the 2004 quarter. Diluted earnings per share were $.30 for the 2005 period and $.31 for the 2004 period.

Operating results for the first quarter of 2005 were affected by increased net interest income resulting from both higher average amounts of loans and higher rates earned by those assets, which was partially offset by higher interest expenses associated mainly with interest bearing transaction accounts and time deposits. The Federal Reserve's Open Market Committee (the "Committee") continued to raise the federal funds rates throughout the 2005 first quarter. It is expected that such actions will continue until the Committee is satisfied that inflation does not pose a significant threat to the economy. The principal effects of those rate increases has been to increase market rates of interest in the short-to-medium term range, while longer term interest rates have been affected to a lesser degree. For example, since the Committee initiated its actions in June of 2004, the Prime Rate, the short-term rate that banks charge to their most credit-worthy customers, has increased by 175 basis points to 5.75%, rates on one-year treasuries have risen by 118 basis points and rates on 20 year Treasury securities have fallen by 56 basis points. Similarly, rates for conventional mortgages have fallen by 36 basis ponts over the same time period. For the Company, these changes in interest rates generally result in increases in rates associated with new and pre-existing variable rate loans, increased rates charged for new and renewed loans, and higher rates realized for federal funds sold and new investments in securities. Also, since

the Company's funding sources are generally short-term deposits, rates associated with those sources, as well as any short-term borrowings, are subject to increases, as well.

Also, the results for the 2005 period were affected adversely by continuing reevaluation of the Company's allowance for loan losses, which resulted in an increase of $217,000 in the provision for loan losses when compared with the same period of 2004.

Noninterest income for the 2005 first quarter was $79,000 less than for the same period of 2004 due to decreased service charges assessed on deposit accounts and for other services. Mortgage brokerage income for the 2005 period was $45,000 more than for the same period of 2004, due to a slight increase in mortgage lending activity.

Noninterest expense for the first quarter of 2005 was $386,000 more than for the same period of 2004 due to increases of $167,000 in salaries and employee benefits, $44,000 in premises and equipment expenses and $175,000 in other expenses, primarily related to increased expenses to facilitate future compliance with the internal control over financial reporting provisions of the Sarbanes-Oxley Act of 2002.

Summary Income

(Dollars in t

For the Three Months Ended March 31,	2005	2004	D
Interest income	$ 7,151	$ 5,908	
Interest expense	2,216	1,640	
Net interest income	4,935	4,268	
Provision for loan losses	450	233	
Noninterest income	1,767	1,846	
Noninterest expenses	4,119	3,733	
Income tax expense	773	763	
Net income	$ 1,360	$ 1,385	

Net Interest Income

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

Interest income increased by $1,243,000, or 21.0%, in the 2005 first quarter compared with the same 2004 period. Interest income from loans increased from $5,331,000 in the 2004 period to $6,614,000 in the 2005 period primarily due to larger volumes of loans outstanding, supplemented by slightly higher interest rates associated with those loans. The amounts of interest earned on all other categories of interest earning assets decreased by $40,000, in the aggregate, as increases in the average yields earned on those assets were offset by smaller average balances held.

Interest expense for deposits increased from $1,232,000 for the 2004 period to $1,735,000 for the 2005 period primarily due to increased rates associated with all categories of interest bearing deposits. Larger average amounts of interest-bearing deposits also contributed to this increased interest expense.

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 ("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 the subsidiary banks, to provide an additional funding mechanism for its mortgage brokerage activities, and for other general corporate purposes. Under current regulatory guidelines, the trust preferred securities issued by the Trust are includible in Tier 1 capital for risk-based capital purposes.

In the first quarter of 2005, interest expenses for long-term debt, which includes the Debentures and FHLB advances, totaled $438,000, an increase of $135,000, or 44.6%, over the amount for the same period of 2004. Average amounts outstanding increased by $8,370,000, or 36.8%, and the interest rate paid for such borrowings increased by 30 basis points.

Partially offsetting these factors were decreased interest expenses for short-term borrowings, which were $62,000 lower in the 2005 quarter than in the 2004 period, resulting from lower average amounts of such borrowings and a 48 basis point reduction in the rate paid.

Average Balances,
Three Months En

	2005		
	Average Balances	Interest Income / Expense	Yields / Rates *
	(Dollars i		
Assets			
Interest earning deposits	$ 794	$ 8	4.09%
Investment securities - taxable	52,075	405	3.15%
Investment securities - tax exempt	6,825	56	3.33%
Federal funds sold	11,744	68	2.35%
Loans, including loans held for sale	415,869	6,614	6.45%
Total interest earning assets	487,307	7,151	5.95%
Cash and due from banks	15,826		
Allowance for loan losses	(4,816)		
Premises and equipment	7,888		

Intangible assets	7,372		
Other assets	4,165		
Total assets	$ 517,742		
Liabilities and shareholders' equity			
Interest bearing deposits			
Interest bearing transaction accounts	$ 64,420	$ 95	0.60%
Savings	90,073	307	1.38%
Time deposits	208,779	1,333	2.59%
Total interest bearing deposits	363,272	1,735	1.94%
Short-term borrowings	8,446	43	2.06%
Long-term debt	31,088	438	5.71%
Total interest bearing liabilities	402,806	2,216	2.23%
Noninterest bearing demand deposits	62,815		
Other liabilities	1,456		
Shareholders' equity	50,665		
Total liabilities and shareholders' equity	$ 517,742		
Interest rate spread			3.72%
Net interest income and net yield on earning assets		$ 4,935	4.11%

* Yields and rates are annualized.

Provision and Allowance for Loan Losses

The provision for loan losses for the 2005 first quarter was $450,000, an increase of $217,000, or 93.1%, from the $233,000 for the same period of 2004. This increase was due primarily to an increase in non-performing loans during the 2005 first quarter, as discussed further below.

Net charge-offs during the three months ended March 31, 2005 were $75,000, compared with $234,000 for the same period of 2004. The allowance for loan losses as of March 31, 2005 was 1.16% of loans outstanding, compared with 1.10% as of December 31, 2004 and 1.24% as of March 31, 2004.

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

	Three Months Ended March 31, 2005	(D
Allowance at beginning of period	$ 4,347	

Provision for loan losses	450
Net charge-offs	(75)
Allowance at end of period	$ 4,722
Allowance as a percentage of loans outstanding	1.16%
Loans at end of period	$ 406,049

Non-performing loans, consisting of nonaccrual loans and loans 90 or more days past due which are still accruing interest, totaled $5,412,000 as of March 31, 2005, compared with $5,078,000 as of December 31, 2004, an increase of $334,000 or 6.6%. The majority of non-performing loans at March 31, 2005 were secured by commercial real estate and other collateral. The coverage ratio (allowance for loan losses divided by non-performing loans) was .9x as of both March 31, 2005 and December 31, 2004. Non-performing loans as of March 31, 2004 totaled $1,482,000.

Following is a summary of non-performing loans as of March 31, 2005 and December 31, 2004:

	March 31, 2005	December 31, 2004
	(Dollars in thousands)	
Non-performing loans		
Nonaccrual loans	$5,059	$4,941
Past due 90 days or more and still accruing	353	137
Total	$5,412	$5,078
Nonperforming loans as a percentage of loans outstanding	1.33%	1.29%

Included in nonaccrual loans as of March 31, 2005, is one credit relationship totaling $2,444,000, or 48.3% of total nonaccrual loans. This credit originated in 2004 to finance the borrower's purchase of a business. The business did not perform as expected and the borrower subsequently discovered problems with information supporting an appraisal of the business. Because of deterioration of the borrower's financial condition, proceeds from sale of the business are expected to be the primary source of repayment. During the fourth quarter of 2004, a partial charge-off of $1,001,000 was recorded. The borrower is cooperating with management to maximize ultimate collection by actively pursuing sale of the business as an operating concern. If the business cannot be sold for a sufficient price within a reasonable period of time, further write-downs might be necessary which could decrease net income. Approximately $367,000 of the allowance for loan losses is allocated to this credit as of March 31, 2005.

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

Noninterest Income

Noninterest income for the 2005 period decreased $79,000, or 4.3%, from the $1,846,000 reported for the 2004 period. Service charges on deposit accounts decreased by $83,000 from the prior year amount. This decrease was the result of fewer assessable transactions. Mortgage brokerage income increased $45,000 or 6.0%, from $749,000 for the 2004 period, due to a small increase in the number of loans originated in the quarter.

Noninterest Expenses

Salaries and employee benefits for the 2005 period were $167,000 or 7.9%, more than in the same 2004 period. This increase resulted primarily from expenses associated with the hiring of a new chief executive officer and several other administrative officers since the end of the first quarter of 2004. Expenses associated with premises and equipment were $44,000, or 9.0%, higher in the 2005 period, primarily due to adding a branch office of the Florence National Bank subsidiary.

Income Taxes

Income tax expense for 2005 increased $10,000, or 1.3%, from the amount for 2004. The average tax rate used for 2005 was 36.2% while in 2004 it was 35.5%. The increase in the average tax rate for 2005 is a result of a lower percentage of income being derived from tax-exempt sources in the current period. Interest income from tax-exempt investment securities was $28,000 less in 2005 than in 2004 and represented 2.6% of pretax income in the 2005 period, compared with 3.9% in the 2004 period.

LIQUIDITY

Liquidity is the ability to meet current and future obligations through liquidation or maturity of existing assets or the acquisition of additional liabilities. Adequate liquidity is necessary to meet the requirements of customers for loans and deposit withdrawals in a timely and economical manner. The most manageable sources of liquidity are composed of liabilities, with the primary focus of liquidity management being the ability to attract deposits within CBI's service areas. Individual and commercial deposits are the primary source of funds for credit activities, along with long-term borrowings from the Federal Home Loan Bank of Atlanta and the net proceeds of issuing $10,000,000 of trust preferred securities. Cash and amounts due from banks and federal funds sold are CBI's primary sources of asset liquidity. These funds provide a cushion against short-term fluctuation in cash flow from both loans and deposits. Securities available-for-sale are CBI's principal source of secondary asset liquidity. However, the availability of this source is limited by pledging commitments for public deposits and securities sold under agreements to repurchase, and is influenced by market conditions.

Total deposits as of March 31, 2005 were $430,066,000, an increase of $6,608,000, or 1.6%, from the amount as of December 31, 2004. As of March 31, 2005 the loan to deposit ratio was 94.4%, compared with 93.0% at December 31, 2004 and 92.2% at March 31, 2004. Loans held-for-sale have not been included in the denominator of the calculation of the loan to deposit ratio. The banking subsidiaries have significant amounts of long-term debt available under agreements with the Federal Home Loan Bank of Atlanta.

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

CAPITAL RESOURCES

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

The March 31, 2005 risk-based capital ratios for CBI and its banking subsidiaries are presented in the following table, compared with the "well capitalized" and minimum ratios under the regulatory definitions and guidelines:

	March 31, 2005		
	Tier 1	Total Capital	Leverage
Community Bankshares, Inc.	13.75%	14.94%	10.71%
Orangeburg National Bank	11.98%	13.16%	8.63%
Sumter National Bank	9.64%	10.84%	8.18%
Florence National Bank	9.17%	10.11%	8.29%
Bank of Ridgeway	12.86%	13.76%	8.69%
Minimum "well capitalized" requirement	6.00%	10.00%	6.00%
Minimum requirement	4.00%	8.00%	4.00%

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

OFF-BALANCE-SHEET ARRANGEMENTS

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

Variable Interest Entity

As discussd under "Results of Operations - Net Interest Income" and in the notes to unaudited consolidated financial statements under "Variable Interest Entities," as of March 31, 2005, 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 for on-balance-sheet instruments.

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

	March 31, 2005
	(Dollars in thousands)
Loan commitments	$50,954
Standby letters of credit	2,967

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

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

On March 22, 2005, CBI entered into a contract for the construction of an approximately 16,000 square foot two-story brick office building to house its corporate headquarters and operations center. The contract price for this project is $1,476,000. Management expects completion of the building in the fourth quarter of 2005.

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. 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 are designated as fair value hedges. These derivative financial instruments are carried in the balance sheet at estimated fair value and changes in the estimated fair values of these derivatives are recorded in the statement of income in net gains or losses on loans held for sale.

Derivative financial instruments are written in amounts referred to as notional amounts. Notional amounts only provide the basis for calculating payments between counterparties and do not represent amounts to be exchanged between parties or a measure of financial risk. The following table includes the notional principal amounts of rate lock commitments and forward sales contracts as of March 31, 2005, and the estimated fair values of those financial instruments included in other assets and liabilities in the balance sheet as of that date.

	March 31, 2005	
	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	$(13,303)	$(7)
Forward sales contracts with investors of mortgage loans to be held for sale	$ 13,303	$ 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 March 31, 2005, CBI is positioned so that net interest income would increase $269,000 and net income would increase $175,000 in the next twelve months if interest rates rose 100 basis points. Conversely, net interest income would decline $269,000 and net income would decline $175,000 in the next twelve months if interest rates declined 100 basis points. In the current interest rate environment, it is not expected that there will be any large decreases in market interest rates in the immediate future. Computation of prospective effects of hypothetical interest rate changes are

based on numerous assumptions, including relative levels of market interest rates and loan prepayment, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions CBI and its customers could undertake in response to changes in interest rates.

As of March 31, 2005 there was no significant change from the interest rate sensitivity analysis for the various changes in interest rates calculated as of December 31, 2004. 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 2004 Annual Report on Form 10-K.

Item 4. Controls and Procedures

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

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

PART II--OTHER INFORMATION

Item 6. Exhibits

Exhibits	10	Agreement Between Community Bankshares, Inc. and C. F. Evans & Company, Inc.
	31-1	Rule 13a-14(a)/15d-14(a) Certification of principal executive officer
	31-2	Rule 13a-14(a)/15d-14(a) Certification of principal financial officer
	32	Certifications Pursuant to 18 U.S.C. Section 1350

SIGNATURES

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

DATED: May 12, 2005

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)