UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

(Mark One)

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2004

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission File Number: 0-24626

COOPERATIVE BANKSHARES, INC.
(Exact name of registrant as specified in its charter)

North Carolina	56-1886527
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
201 Market Street, Wilmington, North Carolina	28401
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (910) 343-0181

Former name, former address and former fiscal year, if changed since last report.

N/A

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 of 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.

/X/ Yes / / No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

/ / Yes /X/ No

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 2,860,764 shares at July 30, 2004

1

TABLE OF CONTENTS

2

COOPERATIVE BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	June 30, 2004	December 31,
	(unaudited)	
ASSETS		
Cash and due from banks, noninterest-bearing	$ 12,936,662	$ 14,400,0
Interest-bearing deposits in other banks	--	3,993,3
Total cash and cash equivalents	12,936,662	18,393,3
Securities:		
Available for sale (amortized cost of $45,866,038 in June 2004 and $43,180,913 in December 2003)	45,544,754	43,613,1
Held to maturity (estimated market value of $2,997,265 in June 2004 and $3,889,736 in December 2003)	3,016,187	3,806,3
FHLB stock	4,654,300	4,154,4
Loans held for sale	6,270,315	6,375,2
Loans	434,822,516	404,820,3
Less allowance for loan losses	3,918,635	3,447,0
Net loans	430,903,881	401,373,3
Other real estate owned	172,070	
Accrued interest receivable	1,901,822	1,852,3
Premises and equipment, net	8,490,409	8,665,6
Goodwill	1,461,543	1,461,5
Other assets	12,524,220	12,741,3
Total assets	$ 527,876,163	$ 502,436,8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$ 380,595,343	$ 367,202,4
Short-term borrowings	36,359,543	41,416,7
Escrow deposits	357,285	199,4
Accrued interest payable	193,389	180,0
Accrued expenses and other liabilities	2,893,978	2,207,0
Long-term obligations	63,085,258	48,087,7
Total liabilities	483,484,796	459,293,4
Stockholders' equity:		
Preferred stock, $1 par value, 3,000,000 shares authorized, no shares issued and outstanding	--	
Common stock, $1 par value, 7,000,000 shares authorized, 2,860,764 and 2,849,447 shares issued and outstanding	2,860,764	2,849,4
Additional paid-in capital	2,673,233	2,638,0
Accumulated other comprehensive income (loss)	(212,047)	285,2
Retained earnings	39,069,417	37,370,6

Total stockholders' equity	44,391,367	43,143,3
Total liabilities and stockholders' equity	$ 527,876,163	$ 502,436,8
Book value per common share	$ 15.52	$ 15.

*Derived from audited consolidated financial statements.
The accompanying notes are an integral part of the consolidated financial statements.

3

COOPERATIVE BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 2004	2003	
Interest income:			
Loans	$ 6,091,877	$ 6,572,050	$1
Securities	556,521	528,897	
Other	7,886	14,185	
Dividends on FHLB stock	37,371	37,849	
Total interest income	6,693,655	7,152,981	1
Interest expense:			
Deposits	1,471,973	1,904,065	
Borrowed funds	692,385	889,958	
Total interest expense	2,164,358	2,794,023	
Net interest income	4,529,297	4,358,958	
Provision for loan losses	300,000	180,000	
Net interest income after provision for loan losses	4,229,297	4,178,958	
Noninterest income:			
Gain on sale of loans	697,290	1,156,740	
Service charges and fees on loans	122,385	153,269	
Deposit-related fees	394,447	376,644	
Bank-owned life insurance earnings	84,405	89,910	
Other income, net	58,841	41,879	
Total noninterest income	1,357,368	1,818,442	
Noninterest expense:			
Compensation and fringe benefits	2,409,441	2,478,979	
Occupancy and equipment	810,112	660,138	
Professional and examination fees	93,055	112,461	
Advertising	117,990	145,541	
Real estate owned	(1,527)	15,651	

Other	494,951	466,964	
Total noninterest expense	3,924,022	3,879,734	
Income before income taxes	1,662,643	2,117,666	
Income tax expense	539,061	694,427	
Net income	$ 1,123,582	$ 1,423,239	$
Net income per share:			
Basic	$ 0.39	$ 0.50	$
Diluted	$ 0.39	$ 0.49	$
Weighted average common shares outstanding:			
Basic	2,860,764	2,847,847	
Diluted	2,909,148	2,895,190	

The accompanying notes are an integral part of the consolidated financial statements.

COOPERATIVE BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	R e
Balance, December 31, 2003	$ 2,849,447	$ 2,638,044	$ 285,251	$ 3
Exercise of stock options	14,000	104,625	--	
Stock traded to exercise options (2,683 shares)	(2,683)	(69,436)		
Other comprehensive loss, net of taxes	--	--	(497,298)	
Net income	--	--	--	
Cash dividends ($.12 per share)	--	--	--	
Balance, June 30, 2004	$ 2,860,764	$ 2,673,233	$ (212,047)	$ 3

The accompanying notes are an integral part of the consolidated financial statements.

COOPERATIVE BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2004	20
OPERATING ACTIVITIES:		
Net income	$ 2,042,053	$ 2,81
Adjustments to reconcile net income to net cash provided by operating activities:		
Net accretion, amortization, and depreciation	505,073	64
Net gain on sale of loans	(1,277,459)	(2,25
Provision for deferred income taxes	(201,172)	(15
Loss on sale of premises and equipment	3,412	
Loss (gain) on sales of foreclosed real estate	(1,565)	
Valuation losses on foreclosed real estate	16,400	11
Provision for loan losses	520,000	38
Proceeds from sale of loans held for sale	81,552,706	136,36
Loan originations held for sale	(80,179,066)	(136,04
Changes in assets and liabilities:		
Accrued interest receivable	(49,456)	12
Prepaid expenses and other assets	674,531	(1,06
Accrued interest payable	13,322	(3
Accrued expenses and other liabilities	686,975	(1,46
Net cash provided (used) by operating activities	4,305,754	(57
INVESTING ACTIVITIES:		
Purchases of securities available for sale	(5,493,265)	
Proceeds from maturity of securities available for sale	200,000	
Repayments of mortgage-backed securities available for sale	2,575,050	5,92
Repayments of mortgage-backed securities held to maturity	790,422	1,05
Net sales (purchases) of FHLB stock	(499,900)	5
Loan originations, net of principal repayments	(30,235,695)	(4,43
Proceeds from disposals of foreclosed real estate	16,535	8
Additions to other real estate owned	(9,487)	(
Purchases of premises and equipment	(300,339)	(1,74
Proceeds from sale of premises and equipment	-	
Net cash provided (used) in investing activities	(32,956,679)	93
FINANCING ACTIVITIES:		
Net increase in deposits	13,392,910	16,37
Net change in short-term borrowings	(57,242)	(62
Repayments on long-term obligations	(2,512)	(
Proceeds received on long-term obligations	10,000,000	
Proceeds from issuance of common stock	46,506	18
Dividends paid	(343,292)	(28
Net change in escrow deposits	157,852	18
Net cash provided by financing activities	23,194,222	15,82
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,456,703)	16,17
CASH AND CASH EQUIVALENTS:		

BEGINNING OF PERIOD	18,393,365	11,85
END OF PERIOD	$ 12,936,662	$ 28,03

(Continued)

COOPERATIVE BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

	Six Months En June 30,	
	2004	
Cash paid for:		
Interest	$ 4,329,871	$
Income taxes	810,900	
Summary of noncash investing and financing activities:		
Transfer from loans to foreclosed real estate	305,678	
Loans to faciliatate the sale of foreclosed real estate	111,725	
Unrealized loss on securities available for sale, net of taxes	(497,298)	
Reclassifications between long-term obligations and short-term borrowings	5,000,000	

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies: The significant accounting policies followed by Cooperative Bankshares, Inc. (the "Company") for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. These unaudited consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X, and, in management's opinion, all adjustments of a normal recurring nature necessary for a fair presentation have been included. The accompanying consolidated financial statements do not purport to contain all the necessary financial disclosures that might otherwise be necessary in the circumstances and should be read in conjunction with the consolidated financial statements and notes thereto in the Company's annual report for the year ended December 31, 2003 (the "Annual Report"). The results of operations for the six-month period ended June 30, 2004 are not necessarily indicative of the results to be expected for the full year.

2. Basis of Presentation: The accompanying unaudited consolidated financial statements include the accounts of Cooperative Bankshares, Inc., Cooperative Bank (the "Bank") and its wholly owned subsidiaries, Lumina

Mortgage Company, Inc. ("Lumina") and CS&L Holdings, Inc. ("Holdings"), and Holdings' majority owned subsidiary, CS&L Real Estate Trust, Inc. (the "REIT"). All significant intercompany items have been eliminated. Certain items for prior periods have been reclassified to conform to the current period presentation. These reclassifications have no effect on the net income or stockholders' equity as previously reported.

3. Earnings per Share: Earnings per share (EPS) are calculated by dividing net income by the weighted average number of common shares outstanding (basic EPS) and the sum of the weighted average number of common shares outstanding and potential common stock (diluted EPS). Potential common stock consists of stock options issued and outstanding. In determining the number of shares of potential common stock, the treasury stock method was applied. This method assumes that the number of shares issuable upon exercise of the stock options is reduced by the number of common shares assumed purchased at market prices with the proceeds from the assumed exercise of the common stock options plus any tax benefits received as a result of the assumed exercise. The following table provides a reconciliation of income available to common stockholders and the average number of shares outstanding for the periods below:

	Three months ended June 30, 2004	Three months ended June 30, 2003	Six months en[ded] June 30, 2004	
Net income (numerator)	$ 1,123,582	$ 1,423,239	$ 2,042,053	$ 2
Shares for basic EPS (denominator)	2,860,764	2,847,947	2,858,152	2
Dilutive effect of stock options	48,384	47,243	53,096	
Shares for diluted EPS (denominator)	2,909,148	2,895,190	2,911,248	2

For the six months ended June 30, 2004 and 2003, there were 4,000 and 4,204 options outstanding respectively that were antidilutive since the exercise price exceeds the average market price. The options have been omitted from the calculation of the dilutive effect of stock options.

8

4. Comprehensive Income: Comprehensive income includes net income and all other changes to the Company's equity, with the exception of transactions with shareholders ("other comprehensive income"). The Company's only components of other comprehensive income relate to unrealized gains and losses on available for sale securities. The following table sets forth the components of other comprehensive income and total comprehensive income for the three and six months ended June 30:

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	

Net income	$ 1,123,582	$ 1,423,239	$
Other comprehensive loss			
Unrealized losses on available for sale securities	(1,149,854)	(114,400)	
Income tax benefit	390,950	38,896	
Other comprehensive loss	(758,904)	(75,504)	
Comprehensive income	$ 364,678	$ 1,347,735	$

5. Stock-Based Compensation: On January 1, 1996 the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation". As permitted by SFAS No. 123, the Company has chosen to continue to apply APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. The option exercise price is the market price of the common stock on the date the option is granted. Accordingly, no compensation cost has been recognized for options granted under the Option Plan. Had compensation cost for the Company's Option Plan been determined based on the fair value at the grant dates for awards under the option plan consistent with the method of SFAS No. 123, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated below.

	Three Months Ended June 30,		Six Mo J
	2004	2003	2004
Net income, as reported	$1,123,582	$1,423,239	$2,042,053
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	--	--	(23,054)
Pro forma net income	$1,123,582	$1,423,239	$2,018,999
Earnings per share:			
Basic-as reported	$ 0.39	$ 0.50	$ 0.71
Basic-pro forma	$ 0.39	$ 0.50	$ 0.71
Diluted-as reported	$ 0.39	$ 0.49	$ 0.70
Diluted-pro forma	$ 0.39	$ 0.49	$ 0.69

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Cooperative Bankshares, Inc. (the "Company") is a registered bank holding company incorporated in North Carolina in 1994. The Company is the parent company of Cooperative Bank (the "Bank"), a North Carolina chartered commercial bank. Cooperative Bank, headquartered in Wilmington, North Carolina, was chartered in 1898. The Bank provides financial services through 21 offices in Eastern North Carolina. One of the Bank's subsidiaries, Lumina Mortgage Company, Inc. ("Lumina") is a mortgage banking firm originating and selling residential mortgage loans through offices in Wilmington, North Carolina; North Myrtle Beach, South Carolina; and Virginia Beach, Virginia. The Bank's other subsidiary, CS&L Holdings, Inc. ("Holdings"), is a holding company incorporated in Virginia for CS&L Real Estate Trust, Inc. (the "REIT"), which is a real estate investment trust.

Through its offices, the Bank provides a wide range of banking products, including interest-bearing and noninterest-bearing checking accounts, certificates of deposit and individual retirement accounts which are insured up to the applicable limits of the Federal Deposit Insurance Corporation ("FDIC"). It offers an array of loan products: overdraft protection, commercial, consumer, agricultural, real estate, residential mortgage and home equity loans. Also offered are safe deposit boxes, ATMs and Access24 Phone Banking, as well as, online banking and bill payment. In addition, the Bank offers discount brokerage services, annuity sales and mutual funds through a third party arrangement with UVEST Investment Services.

MISSION STATEMENT

It is the mission of the Company to provide the maximum in safety and security for our depositors, an equitable rate of return for our stockholders, excellent service for our customers, and to do so while operating in a fiscally sound and conservative manner, with fair pricing of our products and services, good working conditions, outstanding training and opportunities for our staff, along with a high level of corporate citizenship.

MANAGEMENT STRATEGY

Cooperative Bank's lending activities have traditionally concentrated on the origination of loans for the purpose of constructing, financing or refinancing residential properties. In recent years however, the Bank has emphasized origination of nonresidential real estate loans and secured and unsecured consumer and business loans. As of June 30, 2004, approximately $290 million, or 66%, of the Bank's loan portfolio, which excludes loans held for sale, consisted of loans secured by residential properties. This compared to approximately $267 million, or 66% at December 31, 2003. The Bank originates adjustable rate and fixed rate loans. As of June 30, 2004, adjustable rate and fixed rate loans totaled approximately 67% and 33%, respectively, of the Bank's total loan portfolio.

The Bank has chosen to sell a larger percentage of its fixed rate mortgage loan originations in the secondary market and through brokered arrangements. This enables the Bank to reinvest these funds in commercial loans, while increasing fee income.

INTEREST RATE SENSITIVITY ANALYSIS

Interest rate sensitivity refers to the change in interest spread resulting from changes in interest rates. To the extent that interest income and interest expense do not respond equally to changes in interest rates, or that all rates do not change uniformly, earnings will be affected. Interest rate sensitivity, at a point in time, can be analyzed using a static gap analysis that measures the match in balances subject to repricing between interest-earning assets and interest-bearing liabilities. Gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. Gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. At June 30, 2004, the Bank had a one-year positive gap position of 5.4%. During a period of rising interest rates, a positive gap would tend to result in an increase in net interest income while a negative gap would tend to adversely affect net interest income. During a period of falling interest rates, a positive gap would tend to adversely affect net interest income, while a negative gap would tend to result in an increase in net interest income. It is important to note that certain shortcomings are inherent in

10

using a static gap analysis. Although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. For example, a part of the Company's adjustable-rate mortgage loans are indexed to the National Monthly Median Cost of Funds to SAIF-insured institutions. This index is considered a lagging index that may lag behind changes in market rates. The one-year or less interest-bearing liabilities also include checking, savings, and money market deposit accounts. Experience has shown that the Company sees relatively modest repricing of these transaction accounts. Management takes this into consideration in determining acceptable levels of interest rate risk.

When Lumina gives a rate lock commitment to a customer, there is a concurrent "lock in" for the loan with a secondary market investor under a best efforts delivery mechanism. Therefore, interest rate risk is mitigated because any commitments to fund a loan available for sale are concurrently hedged by a commitment from an investor to purchase the loan under the same terms. Loans are usually sold within 60 days after closing.

LIQUIDITY

The Company's goal is to maintain adequate liquidity to meet potential funding needs of loan and deposit customers, pay operating expenses, and meet regulatory liquidity requirements. Maturing securities, principal repayments of loans and securities, deposits, income from operations and borrowings are the main sources of liquidity. The Bank has been granted a line of credit by the Federal Home Loan Bank of Atlanta ("FHLB") in an amount of up to 25% of the Bank's total assets. At June 30, 2004, the Bank's borrowed funds from the FHLB equaled 17.6% of its total assets. Scheduled loan repayments are a relatively predictable source of funds, unlike deposits and loan prepayments that are significantly influenced by general interest rates, economic conditions and competition.

At June 30, 2004, the estimated market value of liquid assets (cash, cash equivalents, marketable securities and loans held for sale) was approximately $67.7 million, which represents 14.1% of deposits and borrowed funds as compared to $72.3 million or 15.8% of deposits and borrowed funds at December 31, 2003. The decrease in liquid assets was primarily due to a decrease in cash and cash equivalents.

The Company's primary uses of liquidity are to fund loans and to make investments. At June 30, 2004, outstanding off-balance sheet commitments to extend credit totaled $43.5 million, and the undisbursed portion of construction loans was $50.9 million. Management considers current liquidity levels adequate to meet the Company's cash flow requirements.

CAPITAL

Stockholders' equity at June 30, 2004, was $44.4 million, up 2.9% from $43.1 million at December 31, 2003. Stockholders' equity at June 30, 2004, includes an unrealized loss net of tax, of $212,000 as compared to an unrealized gain net of tax at December 31, 2003, of $285,000 on securities available for sale marked to estimated fair market value.

Under the capital regulations of the FDIC, the Bank must satisfy minimum leverage ratio requirements and risk-based capital requirements. Banks supervised by the FDIC must maintain a minimum leverage ratio of core (Tier I) capital to average adjusted assets ranging from 3% to 5%. At June 30, 2004, the Bank's ratio of Tier I capital was 8.37%. The FDIC's risk-based capital rules require banks supervised by the FDIC to maintain risk-based capital to risk-weighted assets of at least 8.00%. Risk-based capital for the Bank is defined as Tier I capital plus the balance of allowance for loan losses. At June 30, 2004, the Bank had a ratio of qualifying total capital to risk-weighted assets of 11.93%.

The Company, as a bank holding company, is also subject, on a consolidated basis, to the capital adequacy guidelines of the Board of Governors of the Federal Reserve (the "Federal Reserve Board"). The capital requirements of the Federal Reserve Board are similar to those of the FDIC governing the Bank. The Company currently exceeds all of its capital requirements. Management expects the Company to continue to exceed these capital requirements without altering current operations or strategies.

On June 22, 2004, the Company's Board of Directors approved a quarterly cash dividend of $.07 per share, a 40% increase over the previous dividend. The dividend was paid on July 16, 2004 to stockholders of record as of July 1, 2004. This brings the total dividend for the year to $.12 per share. Any future payment of dividends is dependent on the financial condition and capital needs of the Company, requirements of regulatory agencies, and economic conditions in the marketplace.

CRITICAL ACCOUNTING POLICY

The Bank's most significant critical accounting policy is the determination of its allowance for loan losses and goodwill. A critical accounting policy is one that is both very important to the portrayal of the Company's financial condition and results, and requires a difficult, subjective or complex judgment by management. What makes these judgments inherently difficult, subjective and/or complex is the need to make estimates about the effects of matters that are inherently uncertain. For further information on the allowance for loan losses, see the "Critical Accounting Policy" and the "Financial Condition" in Management's Discussion and Analysis and Note 3 of "Notes to Consolidated Financial Statements" included in the 2003 Annual Report. For further information on goodwill, see the "Critical Accounting Policy" in Management's Discussion and Analysis and Note 13 of "Notes to Consolidated Financial Statements" included in the 2003 Annual Report.

FINANCIAL CONDITION AT JUNE 30, 2004, COMPARED TO DECEMBER 31, 2003

The Company's total assets increased 5.1% to $527.9 million at June 30, 2004, as compared to $502.4 million at December 31, 2003. The major change in the assets is an increase of $30.0 million (7.4%) in loans which was funded by an increase in deposits of $13.4 million (3.6%) and an increase of $10.0 million in FHLB advances which is included in long-term obligations. A decrease of $5.5 million (29.7%) in cash and cash equivalents was attributable to the loan increase. The increase in loans and deposits can be attributed to opening new branches and being located in vibrant markets.

The Company's nonperforming assets (loans 90 days or more delinquent and foreclosed real estate) were $684,000 or .13% of assets, at June 30, 2004, compared to $267,000, or .05% of assets, at December 31, 2003. Foreclosed real estate, consisting of only one property, increased to $172,000 at June 30, 2004, from $0 at December 31, 2003. The Company assumes an aggressive position in collecting delinquent loans and disposing of foreclosed assets to minimize balances of nonperforming assets and continues to evaluate the loan and real estate portfolios to provide loss reserves as considered necessary. For further information see "Comparison of Operating Results - Provision and Allowance for Loan Losses".

COMPARISON OF OPERATING RESULTS

OVERVIEW

The net income of the Company depends primarily upon net interest income. Net interest income is the difference between the interest earned on loans, the securities portfolio and interest-earning deposits and the cost of funds, consisting principally of the interest paid on deposits and borrowings. The Company's operations are materially affected by general economic conditions, the monetary and fiscal policies of the Federal government, and the policies of regulatory authorities. Yields and costs have declined because of the actions the Federal Reserve has taken since 2001 to reduce interest rates in hopes of spurring the economy.

NET INCOME

Net income for the three and six-month periods ended June 30, 2004, decreased 21.1% to $1.1 million and 27.4% to $2.0 million respectively, as compared to the same periods last year. The decrease in net income for the six-month period ended June 30, 2004 can be attributed to a decrease in noninterest income of $848,000 and an increase in noninterest expense of $326,000. For further information see the captions "Noninterest Income" and "Noninterest Expense."

12

INTEREST INCOME

For the three-month period ended June 30, 2004, interest income decreased 6.4% as compared to the same period a year ago. The average balance of interest-earning assets increased 2.6% but the average yield decreased 53 basis points as compared to the same period a year ago. Interest income decreased 7.9% for the six-month period ended June 30, 2004, as compared to the same period a year ago. The decrease in interest income can be attributed to the yield on average interest-earning assets decreasing to 5.49% as compared to 6.04% for the same period a year ago. The average balance of interest-earning assets increased 1.4% for the six month period ended June 30, 2004, as compared to the same period a year ago. The increase in the average balance of interest-earning assets had a positive effect on interest income while the reduction in yield had a negative impact on interest income.

INTEREST EXPENSE

Interest expense decreased 22.5% for the three-month period ended June 30, 2004, as compared to the same period a year ago. This decrease was due to the average cost of interest-bearing liabilities decreasing 59 basis points as compared to the same period a year ago. In the six-month period ended June 30, 2004, interest expense decreased 24.1% as compared to the same period a year ago. The average balance of interest-bearing liabilities decreased 0.7% as compared to the same period a year ago. The cost of interest-bearing liabilities decreased to 1.99% as compared to 2.61% for the same period last year.

NET INTEREST INCOME

Net interest income for the three and six-month periods ended June 30, 2004, as compared to the same period a year ago, increased 3.9% and 2.9% respectively. The increase was due to interest-earning assets increasing more than interest-bearing liabilities. In addition, there was a larger decrease in the cost of liabilities versus the yield on assets. This can be attributed to the Bank's success in obtaining both low and no cost deposits. See "Average Yield/Cost Analysis" table for further information on interest income and interest expense.

AVERAGE YIELD/COST ANALYSIS

The following tables contain information relating to the Company's average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such annualized yields and costs are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. The average loan portfolio balances include nonaccrual loans.

	For the three months			
	JUNE 30, 2004			
(Dollars in thousands)	Average Balance	Interest	Average Yield/ Cost	Av Ba
Interest-earning assets:				
Interest-bearing deposits in other banks	$3,413	$ 8	0.94%	$
Securities:				
Available for sale	46,997	516	4.39%	3
Held to maturity	3,320	41	4.94%	
FHLB stock	4,302	37	3.44%	
Loan portfolio	432,420	6,092	5.64%	42
Total interest-earning assets	490,452	6,694	5.46%	47
Non-interest earning assets	28,003			2
Total assets	$518,455			$50
Interest-bearing liabilities:				
Deposits	348,247	1,472	1.69%	34
Borrowed funds	92,551	693	3.00%	9
Total interest-bearing liabilities	440,798	$2,165	1.96%	43
Non-interest bearing liabilities	32,830			2
Total liabilities	473,628			46
Stockholders' equity	44,827			4

Total liabilities and stockholders' equity	$518,455			$50
Net interest income		$4,529		
Interest rate spread			3.50%	
Net yield on interest-earning assets			3.69%	
Percentage of average interest-earning assets to average interest-bearing liabilities			111.3%	

	For the six months en			
	JUNE 30, 2004			
(Dollars in thousands)	Average Balance	Interest	Average Yield/ Cost	Av Ba
Interest-earning assets:				
Interest-bearing deposits in other banks	$ 3,923	$ 18	0.92%	$
Securities:				
Available for sale	46,755	1,027	4.39%	3
Held to maturity	3,535	91	5.15%	
FHLB stock	4,218	73	3.46%	
Loan portfolio	424,445	12,037	5.67%	42
Total interest-earning assets	482,876	13,246	5.49%	47
Non-interest earning assets	26,814			2
Total assets	$509,690			$50
Interest-bearing liabilities:				
Deposits	346,167	2,979	1.72%	34
Borrowed funds	89,302	1,364	3.05%	9
Total interest-bearing liabilities	435,469	$ 4,343	1.99%	43
Non-interest bearing liabilities	31,348			2
Total liabilities	466,817			46
Stockholders' equity	42,873			3
Total liabilities and stockholders' equity	$509,690			$50
Net interest income		$ 8,903		

Interest rate spread	3.50%
Net yield on interest-earning assets	3.69%
Percentage of average interest-earning assets to average interest-bearing liabilities	110.90%

PROVISION AND ALLOWANCE FOR LOAN LOSSES

During the six-month period ended June 30, 2004 the Bank had net charge-offs against the allowance for loan losses of $48,000 compared to $206,000 for the same period in 2003. This decrease was primarily due to one credit relationship being charged off during the first quarter of 2003. The Bank added $520,000 to the allowance for loan losses for the current six-month period increasing the balance to $3.9 million at June 30, 2004. This brings the ratio of allowance for loan losses to total loans up to .89% at June 30, 2004 as compared to .84% at December 31, 2003.

This percentage continues to rise because of the increase in retail banking loans in the Bank's portfolio. Management considers the current level of the allowance to be appropriate based on loan composition, the current level of delinquencies and other nonperforming assets, overall economic conditions and other factors. Future increases to the allowance may be necessary, however, due to changes in loan composition or loan volume, changes in economic or market area conditions and other factors. Additionally, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the recognition of adjustments to the allowance for loan losses based on their judgments of information available to them at the time of their examination.

NONINTEREST INCOME

Noninterest income decreased by 25.3% for the six-month period ended June 30, 2004, as compared to the same period a year ago. The change in noninterest income can be attributed to gain on sale of loans and service charges and fees on loans decreasing $857,000 and $110,000 respectively. These changes were primarily caused by a reduction in mortgage banking activities caused by lower refinancing volumes. Deposit related fees increased $125,000 primarily due to a new service the Bank offered beginning in April 2003, for checking accounts with non-sufficient funds.

In the three-month period ended June 30, 2004, noninterest income decreased 25.4% as compared to the same period last year. The gain on sale of loans and service charges and fees on loans decreased $459,000 and $31,000 respectively, for the three-month period ended June 30, 2004 as compared to the same period a year ago. The reasons for these decreases are the same as stated above for the six-month period. Other noninterest income increased by $17,000 (40.5%) for the three-month period ended June 30, 2004, as compared to the same period a year ago largely because of increased income due to annuity and mutual funds sales through UVEST Investment Services.

NONINTEREST EXPENSE

For the six-month period ended June 30, 2004, noninterest expense increased 4.4% as compared to the same period last year. Occupancy and equipment and other expense increased $327,000 and $89,000 respectively, which was primarily caused by the opening of four new branches since May of 2003. Real estate owned expense decreased $35,000 for the six-month period ended June 30, 2004, as compared to the same period a year ago, primarily because the Bank owned no more than one property during this period. In addition, the Bank made a small profit on the sale of a property and is receiving rent payments on the one property it currently owns.

In the three-month period ended June 30, 2004, noninterest expense increased 1.1% as compared to the same period last year. This increase can be attributed to occupancy and equipment and other expense increasing $150,000 and $28,000 respectively. The reasons for these changes are identical to the six-month period ended June 30, 2004. Compensation and fringe benefits decreased $70,000 during the three-month period ended June 30, 2004 as compared to the same period a year ago. This decrease was caused by a reduction in the amount of employee commissions due to a reduction in mortgage banking activities caused by lower refinancing volumes.

INCOME TAXES

The effective tax rate for the six-month periods ended June 30, 2004 and 2003, was 33.3% and 31.8% respectively. The lower rate in 2003 was the result of the formation of Holdings and the REIT in December 2003, which caused an adjustment to taxes. The effective tax rate for the three-month periods ended June 30, 2004 and 2003 was 32.4% and 32.8% respectively.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information contained herein, the discussion contains forward-looking statements that involve risks and uncertainties. Economic circumstances, the Company's operations, and the Company's actual results could differ significantly from those discussed in the forward-looking statements. Some of the factors that could cause or contribute to such differences are discussed herein, but also include changes in the economy and interest rates in the nation, changes in the Company's regulatory environment and the Company's market area.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk is interest rate risk. Interest rate risk is the result of differing maturities or repricing intervals of interest-earning assets and interest-bearing liabilities and the fact that rates on these financial instruments do not change uniformly. These conditions may impact the earnings generated by the Company's interest-earning assets or the cost of its interest-bearing liabilities, thus directly impacting the Company's overall earnings. The Company's management actively monitors and manages interest rate risk. One way this is accomplished is through the development of, and adherence to, the Company's asset/liability policy. This policy sets forth management's strategy for matching the risk characteristics of the Company's interest-earning assets and interest-bearing liabilities so as to mitigate the effect of changes in the rate environment. The Company's market risk profile has not changed significantly since December 31, 2003.

ITEM 4 - CONTROLS AND PROCEDURES

As of the end of the period covered by this report, management of the Company carried out an evaluation, under the supervision and with the participation of the Company's principal executive officer and principal financial officer, of the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. It should be noted that the design of the Company's disclosure controls and procedures is based in part upon certain reasonable assumptions about the likelihood of future events, and there can be no reasonable assurance that any design of disclosure controls and procedures will succeed in achieving its stated goals under all potential future conditions, regardless of how remote, the Company's principal executive and financial officers have concluded that the Company's disclosure controls and procedures are, in fact, effective at a reasonable assurance level.

There have been no changes in the Company's internal control over financial reporting (to the extent that elements of internal control over financial reporting are subsumed within disclosure controls and procedures) identified in connection with the evaluation described in the above paragraph that occurred during the Company's last fiscal quarter, that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Not applicable

(b) Not applicable

(c) Not applicable

(d) Not Applicable

(e) Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

(a) Not applicable

(b) Not applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS

(1) Annual Meeting of Stockholders, April 30, 2004
(a) Election of Directors

	FOR	AGAINST

	Number of Votes	% of Votes	Number of Votes	% of Votes	Number of Votes
James D. Hundley	2,379,706	90.00	150	--	266,739
O. Richard Wright, Jr.	2,379,706	90.00	150	--	266,739
Russell M. Carter	2,379,630	90.00	150	--	266,815

(b) Stockholder Proposal

FOR		AGAINST		
Number of Votes	% of Votes	Number of Votes	% of Votes	Number of Votes
565,892	21.38	1,429,013	53.99	651,690

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 10.12 Change in Control Protection Agreement of O. C. Burrell, Jr.

Exhibit 10.13 Change in Control Protection Agreement of Todd L. Sammons

Exhibit 10.14 Change in Control Protection Agreement of Dickson B. Bridger

Exhibit 31.1 Rule 13a-14(a) Certification of the Chief Executive Officer

Exhibit 31.2 Rule 13a-14(a) Certification of the Chief Financial Officer

Exhibit 32 Certificate pursuant to 18 U.S.C. Section 1350

(b) Reports on Form 8-K.

The Company filed a current report on Form 8-K dated April 22, 2004 to report first quarter earnings and a current Report on Form 8-K dated July 21, 2004 to report second quarter earnings. The Company filed a current report on Form 8-K dated July 1, 2004 to report the declaration of a dividend.

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 11, 2004	Cooperative Bankshares, Inc.
	/s/ Frederick Willetts, III
	Frederick Willetts, III President/Chief Executive Officer
Dated: August 11, 2004	/s/ Todd L. Sammons
	Todd L. Sammons Senior Vice President/Chief Financial Officer