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FSB Community Bankshares Inc  
Form 10QSB  
August 14, 2007

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended June 30, 2007

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 No. 001-52751

FSB Community Bankshares, Inc.

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

United States

74-3164710

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

-----  
(I.R.S. Employer Identification Number)

45 South Main Street, Fairport, New York

14450

-----  
(Address of Principal Executive Offices)

-----  
Zip Code

(585) 223-9080

-----  
(Registrant's telephone number)

N/A

-----  
(Former name or former address, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. YES NO X  
--- ---.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO X  
--- ---

As of August 13, 2007 there were 1,785,000 shares of the Registrant's common stock, par value \$0.10 per share, outstanding, 945,050, or 53.0%, of which were held by FSB Community Bankshares, MHC, the Registrant's mutual holding company.

FSB Community Bankshares, Inc.

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## Part I. Financial Information

- Item 1. Consolidated Financial Statements

FSB COMMUNITY BANKSHARES, INC.

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Consolidated Balance Sheets  
 June 30, 2007 and December 31, 2006 (unaudited)  
 (Dollars in thousands, except per share data)

Assets	June 30, 2007	
	-----	-----
Cash and due from banks	\$ 1,251	
Interest-earning demand deposits	8,495	
	-----	-----
Cash and Cash Equivalents	9,746	
Securities available for sale	537	
Securities held to maturity (fair value 2007- \$24,904, 2006- \$25,502)	25,213	
Investment in FHLB stock	1,151	
Loans receivable, net of allowance for loan losses of \$322	120,475	
Accrued interest receivable	808	
Premises and equipment, net	2,641	
Other assets	748	
	-----	-----
Total Assets	\$ 161,319	=====
	=====	=====
Liabilities		
Deposits:		
Non-interest bearing	\$ 3,291	
Interest bearing	121,873	
	-----	-----
Total Deposits	125,164	
Short term borrowings	-	
Long term borrowings	19,957	
Advances from borrowers for taxes and insurance	2,314	
Other liabilities	305	
	-----	-----
Total Liabilities	147,740	-----
	-----	-----
Stockholder's Equity		
Preferred Stock- no par- 1,000,000 shares authorized; No shares issued and outstanding	-	
Common Stock- \$0.10 par value- 10,000,000 shares authorized; 100 shares issued and outstanding	-	
Additional paid in capital	10	
Retained earnings	13,258	
Accumulated other comprehensive income	311	
	-----	-----
Total Stockholder's Equity	13,579	-----
	-----	-----
Total Liabilities and Stockholder's Equity	\$ 161,319	=====
	=====	=====

See accompanying notes to consolidated financial statements

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FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Operations  
 Three Months Ended June 30, 2007 and 2006 (unaudited)  
 (Dollars in thousands)

	2007	
	-----	-----
Interest and Dividend Income		
Loans	\$ 1,782	\$
Securities-taxable	242	
Mortgage-backed securities	64	
Other	41	
	-----	-----
Total Interest and Dividend Income	2,129	
	-----	-----
Interest Expense		
Deposits	1,064	
Borrowings:		
Short term	-	
Long term	255	
	-----	-----
Total Interest Expense	1,319	
	-----	-----
Net Interest Income	810	
	-----	-----
Other Income		
Service fees	25	
Fee income	20	
Other	33	
	-----	-----
Total Other Income	78	
	-----	-----
Other Expense		
Salaries and employee benefits	549	
Occupancy expense	109	
Data processing costs	29	
Advertising	60	
Equipment expense	84	
Electronic banking	14	
Directors fees	24	
Mortgage fees and taxes	47	
Other expense	147	
	-----	-----
Total Other Expense	1,063	
	-----	-----
Income (Loss) Before Income Taxes	(175)	
	-----	-----
Provision (Benefit) for Income Taxes	(63)	
	-----	-----

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Net Income (Loss)	\$ (112)	\$
	=====	=====

See accompanying notes to consolidated financial statements

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## FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Operations  
Six Months Ended June 30, 2007 and 2006 (unaudited)  
(Dollars in thousands)

	2007	
Interest and Dividend Income	-----	-----
Loans	\$ 3,575	\$
Securities-taxable	477	
Mortgage-backed securities	123	
Other	47	
Total Interest and Dividend Income	----- 4,222	-----
Interest Expense		
Deposits	2,027	
Borrowings:		
Short term	29	
Long term	516	
Total Interest Expense	----- 2,572	-----
Net Interest Income	----- 1,650	-----
Other Income		
Service fees	49	
Fee income	42	
Other	68	
Total Other Income	----- 159	-----
Other Expense		
Salaries and employee benefits	1,173	
Occupancy expense	216	
Data processing costs	53	
Advertising	162	
Equipment expense	178	
Electronic banking	21	

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Directors fees	53	
Mortgage fees and taxes	71	
Other expense	267	
	<u>2,194</u>	
Total Other Expense		
Income (Loss) Before Income Taxes	(385)	
Provision (Benefit) for Income Taxes	(138)	
	<u>(247)</u>	
Net Income (Loss)	\$ (247)	\$

See accompanying notes to consolidated financial statements

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FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Stockholder's Equity  
Six Months Ended June 30, 2007 and 2006 (unaudited)  
(Dollars in thousands)

	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Earnings
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Balance - January 1, 2006	\$ -	\$ -	\$ 10	\$ 13,272
Comprehensive income				
Net income				164
Change in net unrealized gain on securities available for sale, net of taxes	-	-	-	-
Total Comprehensive Income				
Balance - June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ 13,436</u>
Balance - January 1, 2007	\$ -	\$ -	\$ 10	\$ 13,505
Comprehensive loss				
Net loss				(247)
Change in net unrealized gain on securities available for sale, net of taxes	-	-	-	-
Total Comprehensive Loss				
Balance - June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ 13,258</u>

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See accompanying notes to consolidated financial statements

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## FSB COMMUNITY BANKSHARES, INC.

### Consolidated Statements of Cash Flows Six Months Ended June 30, 2007 and 2006 (unaudited) (Dollars in thousands)

	2007
Cash Flows From Operating Activities	
Net income (loss)	\$ (247)
Adjustments to reconcile net income (loss) to net cash provided from operating activities:	
Amortization of premium on investments	17
Accretion of discount on investments	(2)
Amortization of net deferred loan origination costs	(13)
Loans originated for sale	(411)
Proceeds from sales of loans	411
Depreciation and amortization	151
Deferred income tax benefit	(23)
(Increase) decrease in accrued interest receivable	65
Increase in other assets	(543)
Increase (decrease) in other liabilities	(175)
Net Cash Used By Operating Activities	(770)
Cash Flows From Investing Activities	
Purchase of securities held to maturity	(5,000)
Proceeds from maturities and calls of securities held to maturity	3,963
Net (increase) decrease in loans	675
Net (increase) decrease of Federal Home Loan Bank stock	339
Purchase of premises and equipment	(646)
Proceeds from sale of foreclosed real estate	-
Net Cash Used By Investing Activities	(669)
Cash Flows From Financing Activities	
Net increase in deposits	16,584
Net decrease in short term borrowings	(4,200)
Proceeds from long-term borrowings	-
Repayments on long-term borrowings	(3,867)
Net increase in advances from borrowers for taxes and insurance	486
Net Cash Provided By Financing Activities	9,003

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Net Increase (Decrease) in Cash and Cash Equivalents	7,564
Cash and Cash Equivalents- Beginning	2,182
Cash and Cash Equivalents- End	\$ 9,746

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## FSB COMMUNITY BANKSHARES, INC.

### Consolidated Statements of Cash Flows, Cont'd

	2007	2006
Supplementary Cash Flows Information		
Interest paid	\$ 2,576	\$ 2,01
Income taxes paid	\$ 1	\$ 4

See accompanying notes to consolidated financial statements

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#### Notes to Financial Statements

##### Note 1-Basis of Presentation

The accompanying unaudited consolidated financial statements of FSB Community Bankshares, Inc., and its wholly owned subsidiary (the "Company") have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and the instructions of Form 10-QSB. Accordingly, they do not include all of the information and footnotes necessary for a complete presentation of consolidated financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included.

The unaudited consolidated financial statements and "Management's Discussion and Analysis or Plan of Operation" should be read in conjunction with the Company's audited financial statements for the years ended December 31, 2006 and 2005, included in the Prospectus filed under Rule 424(b)(3) with the Securities and Exchange Commission ("SEC") on May 23, 2007, as subsequently amended.



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Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The consolidated financial statements at June 30, 2007 and December 31, 2006 and for the three and six months ended June 30, 2007 and 2006 include the accounts of the Company, Fairport Savings Bank (the "Bank") and the Bank's wholly-owned subsidiary, Oakleaf Services Corporation ("Oakleaf"). All inter-company balances and transactions have been eliminated in consolidation. Certain amounts from prior periods have been reclassified, when necessary, to conform to current period presentation.

### Note 2-Stock Issuance Plan

On August 10, 2007 the Company completed its stock offering of 47% of the aggregate total voting stock of the Company pursuant to the laws of the United States of America and the rules and regulations of the Office of Thrift Supervision ("OTS") issuing 1,785,000 shares of common stock, of which 838,950 shares were sold at \$10 per share raising gross proceeds of \$8.4 million. The stock was offered to eligible account holders, the Bank's employee stock ownership plan (ESOP), and to the public. After the offering, 53% of the Company's outstanding common stock, or 946,050 shares, is owned by FSB Community Bankshares, MHC.

Costs of approximately \$855,000 associated with the Stock Offering have been deducted from the proceeds from the sale of stock resulting in approximate net proceeds of \$7,534,500, and were included in other assets at June 30, 2007.

### Note 3-Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim

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periods, disclosure and transition of uncertain tax positions. The adoption of FIN 48 did not have any effect on our consolidated financial statements. In May 2007, the FASB issued FASB Staff Position ("FSP") FIN 48-1 "Definition of Settlement in FASB Interpretation No. 48" (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to January 1, 2007. The implementation of this standard did not have any impact on our consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are evaluating the impact, if any, of the

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adoption of SFAS 157 on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS 159 is effective as of January 1, 2008. We are evaluating the impact, if any, of the adoption of SFAS 159 on our consolidated financial statements.

### Note 4-Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the stockholder's equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income (loss).

The components of other comprehensive income (loss) and related tax effects for the three and six months ended June 30, 2007 and 2006 are as follows:

	For the Three Months Ended June 30,		
	2007	2006	
	----	----	
	(In Thousands)		
Unrealized holding gain (loss) on available for sale securities	\$ 9	\$ (48)	\$
Less reclassification adjustment for realized gains Included in net income	-	-	
	-----	-----	-----
Net unrealized loss	9	(48)	
Tax effect	3	(17)	
Net of tax amount	\$ 6	\$ 31	\$
	=====	=====	=====

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### Note 5-Earnings (Loss) Per Share

Since the Offering described in Note 2 was still in process as of June 30, 2007, the Company has not presented earnings (loss) per share data since such information would not be meaningful.

### Item 2. Management's Discussion and Analysis or Plan of Operation

#### General

Throughout the Management's Discussion and Analysis or Plan of Operation ("MD&A") the term, "the Company", refers to the consolidated entity of FSB Community Bankshares, Inc., Fairport Savings Bank, and Oakleaf Services Corporation, a wholly owned subsidiary of Fairport Savings Bank. At June 30,

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2007, FSB Community Bankshares, MHC the Company's mutual holding company parent, held 100% of the Company's outstanding common stock, engaged in no significant activities and was not included in the MD&A.

### Forward Looking Statements

This Quarterly Report contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including, among other things, changes in economic conditions including real estate values in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Company's market areas and competition, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake, and specifically declines any obligation, to publicly release the results of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

### Critical Accounting Policies

The most significant accounting policies followed by the Company are presented in Note 1 to the consolidated financial statements ("the Consolidated Financial Statements") included in the Company's Prospectus filed pursuant to Rule 424(b) on May 23, 2007, as subsequently amended. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the consolidated financial statements and how those values are determined. We have identified the accounting of our allowance for loan losses as our critical accounting policy.

**Allowance for Loan Losses.** The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. The amount of the allowance is based on significant estimates, and the ultimate losses may vary from such estimates as more information becomes available or conditions change. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions used

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and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

As a substantial percentage of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property securing a loan and the related allowance determined. Management carefully reviews the assumptions supporting such appraisals to determine that the resulting values reasonably reflect amounts

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realizable on the related loans.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. We consider a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews and other relevant factors. This evaluation is inherently subjective as it requires material estimates by management that may be susceptible to significant change based on changes in economic and real estate market conditions.

The evaluation has a specific and general component. The specific component relates to loans that are delinquent or otherwise identified as a problem loan through the application of our loan review process and our loan grading system. All such loans are evaluated individually, with principal consideration given to the value of the collateral securing the loan. Specific allowances are established as required by this analysis. The general component is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions and geographic concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general component of the allowance for loan losses.

Actual loan losses may be significantly more than the allowance we have established which could have a material negative effect on our financial results.

### Comparison of Financial Condition at June 30, 2007 and December 31, 2006

Total Assets. Total assets increased by \$8.5 million, or 5.6%, to \$161.3 million at June 30, 2007 from \$152.8 million at December 31, 2006. The primary increase in total asset growth reflected increases in cash and cash equivalents of \$7.6 million, with \$5.6 million in subscription funds from the Company's stock offering and additional funds from deposit growth in the Irondequoit and Penfield branches. Securities increased by \$955,000 while premises and equipment increased by \$495,000 mainly due to building and equipment costs associated with the new Irondequoit branch. Other assets increased by \$548,000 primarily due to deferred stock offering costs of \$502,000. These increases were offset by decreases in loans receivable of \$662,000, and FHLB stock of \$339,000.

Loans receivable decreased by \$662,000, or .5%, to \$120.5 million at June 30, 2007 from \$121.1 million at December 31, 2006. The decrease in loans receivable was the result of loan repayments exceeding loan originations and

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sales of three 30-year fixed-rate mortgage loans totaling \$411,000. The Bank is not involved in, and has no exposure to, subprime lending activities.

Investment securities increased by \$955,000, or 3.9%, to \$25.8 million at June 30, 2007 from \$24.8 million at December 31, 2006. The increase was primarily attributable to \$3.5 million in purchases of United States Government agency securities, \$1.5 million in purchases of adjustable rate mortgage-backed securities, partially offset by the maturity of \$3.2 million of United States Government agency securities, \$763,000 of principal payments received from mortgage-backed securities, and a \$67,000 decrease in the fair value of securities classified as available for sale.

Deposits and Borrowings. Deposits increased by \$16.6 million, or 15.3%, to \$125.2 million at June 30, 2007 from \$108.6 million at December 31, 2006.

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Certificates of deposit, including IRAs, increased by \$8.1 million, and transaction accounts, including checking, money market and savings accounts, increased by \$8.5 million. The net deposit growth was primarily attributable to \$5.6 million in subscription funds deposited into a savings account until the offering closed, and \$9.8 million in deposit growth in the Irondequoit branch since opening on January 4, 2007.

Borrowings decreased by \$8.1 million, or 28.8%, to \$20.0 million at June 30, 2007 from \$28.0 million on December 31, 2006. We decreased our short-term Federal Home Loan Bank borrowings by \$4.2 million and our long-term Federal Home Loan Bank borrowings by \$3.9 million. These funding sources were replaced by deposits obtained following the opening of our Irondequoit branch.

Stockholder's Equity. Total stockholder's equity decreased by \$291,000, or 2.1%, to \$13.6 million at June 30, 2007 from \$13.9 million at December 31, 2006. The decrease resulted from a net loss of \$247,000 for the six months ended June 30, 2007, and a \$44,000 decrease in accumulated other comprehensive income.

Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated.

	June 30, 2007	December 31, 2006
	-----	-----
	(Dollars in thousands)	
Non-accrual loans:		
Real estate loans:		
One- to four-family residential.....	\$ 85	\$ 143
Home equity lines of credit.....	150	28
Multi-family residential.....	-	-
Construction.....	-	-
Commercial.....	-	-
Other loans.....	3	-
	-----	-----
Total.....	238	171
	-----	-----
Accruing loans 90 days or more past due:	-	-
	-----	-----
Total non-performing loans.....	238	171
	-----	-----
Foreclosed real estate.....	-	-
Other non-performing assets.....	-	-
	-----	-----
Total non-performing assets.....	\$ 238	\$ 171
	-----	-----
Ratios:		
Total non-performing loans to total loans	0.20%	0.14%
Total non-performing loans to total assets	0.15%	0.11%
Total non-performing assets to total assets	0.15%	0.11%

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At June 30, 2007, there were no other loans or other assets that are not disclosed in the table or disclosed as classified or special mention, where known information about possible credit problems of borrowers caused us to have serious doubts as to the ability of the borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans in the future.

Average balances and yields. The following table sets forth average balance sheets, average yields and costs, and certain other information at and for the periods indicated. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The Bank has no tax-exempt securities or loans. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income.

	For the Three Months Ended June 30,				
	2007			2006	
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense
Interest-earning assets:					
Loans.....	\$ 120,083	\$ 1,782	5.94%	\$ 113,565	1,656
Securities-taxable.....	18,791	242	5.15	20,530	234
Mortgage-backed securities....	6,025	64	4.25	7,139	75
Other.....	3,293	41	4.98	1,623	18
Total interest-earning assets	148,192	2,129	5.75%	142,857	1,983
Noninterest-earning assets....	4,980			3,193	
Total assets.....	\$ 153,172			\$ 146,050	
Interest-bearing liabilities:					
NOW accounts.....	\$ 5,390	8	0.59	\$ 3,563	4
Passbook savings.....	13,536	35	1.03	12,244	23
Money market savings.....	10,604	75	2.83	10,739	67
Individual retirement accounts	15,714	173	4.40	14,632	137
Certificates of deposit.....	68,265	773	4.53	64,821	614
Federal Home Loan Bank advances	20,536	255	4.97	19,997	216
Total interest-bearing liabilities.....	134,045	1,319	3.94%	125,996	1,061
Noninterest-bearing liabilities:					
Demand deposits.....	3,124			3,990	
Other.....	2,351			2,346	
Total liabilities.....	139,520			132,332	

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Stockholder's equity.....	13,652		13,718
	-----		-----
Total liabilities and stockholder's equity.....	\$ 153,172		\$ 146,050
	=====		=====
Net interest income.....	\$ 810		\$ 922
	=====		=====
Interest rate spread (1).....		1.81%	
		=====	=====
Net interest-earning assets (2)	\$ 14,147		\$ 16,861
	=====		=====
Net interest margin (3).....		2.18%	2.58%
		=====	=====
Average interest-earning assets to average interest-bearing liabilities.....	111%		113%
	=====		=====

- (1) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
- (2) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
- (3) Net interest margin represents net interest income divided by total interest-earning assets.

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For the Six Months Ended June 30,					
2007			2006		
Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	
-----	-----	-----	-----	-----	-----
Interest-earning assets:					
Loans.....	\$ 120,277	\$ 3,575	5.94%	\$ 111,622	3,251
Securities-taxable.....	19,101	477	4.99	20,044	452
Mortgage-backed securities....	5,899	123	4.17	7,389	156
Other.....	1,882	47	4.99	2,174	46
	-----	-----	-----	-----	-----
Total interest-earning assets	147,159	4,222	5.74%	141,229	3,905
	-----	-----	-----	-----	-----
Noninterest-earning assets....	4,839			3,154	
	-----			-----	
Total assets.....	\$ 151,998			\$ 144,383	
	=====			=====	
Interest-bearing liabilities:					
NOW accounts.....	\$ 5,139	16	0.62	\$ 3,412	8
Passbook savings.....	12,866	77	1.20	12,245	38

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Money market savings.....	10,407	146	2.81	10,602	117
Individual retirement accounts	15,358	330	4.30	14,739	272
Certificates of deposit.....	66,871	1,458	4.36	63,310	1,152
Federal Home Loan Bank advances	22,355	545	4.88	20,245	437
	-----	-----		-----	-----
Total interest-bearing liabilities.....	132,996	2,572	3.87%	124,553	2,024
	-----	-----	----	-----	-----
Noninterest-bearing liabilities:					
Demand deposits.....	3,185			4,063	
Other.....	2,132			2,065	
	-----			-----	
Total liabilities.....	138,313			130,681	
Stockholder's equity.....	13,685			13,702	
	-----			-----	
Total liabilities and stockholder's equity.....	\$ 151,998			\$ 144,383	
	=====			=====	
Net interest income.....		\$ 1,650			\$ 1,881
		=====			=====
Interest rate spread (1).....			1.87%		
			=====		
Net interest-earning assets (2)	\$ 14,163			\$ 16,676	
	=====			=====	
Net interest margin (3).....		2.24%			2.66%
		=====			=====
Average interest-earning assets to average interest-bearing liabilities.....	111%			113%	
	=====			=====	
-----					

- (1) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
- (2) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
- (3) Net interest margin represents net interest income divided by total interest-earning assets.

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### Comparison of Operating Results for the Three Months Ended June 30, 2007 and June 30, 2006

General. We had a net loss of \$112,000 for the three months ended June 30, 2007 compared to net income of \$97,000 the three months ended June 30, 2006. The decrease was primarily attributable to a decrease in net interest income as a result of the decrease in our net interest margin in a flat yield curve environment (short-term interest rates on United States Treasury obligations equal or are slightly higher or lower than long-term rates). In addition we had a decrease in other income mainly due to decreasing revenue generated from our Oakleaf subsidiary, and an increase in other expense resulting primarily from additional salaries and benefits, occupancy, advertising, and other operating expenses incurred in connection with the operation of our Irondequoit branch that opened in early 2007.

Interest and Dividend Income. Interest and dividend income increased by



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\$146,000, or 7.4% to \$2.1 million for the three months ended June 30, 2007 from \$2.0 million for the three months ended June 30, 2006. The increase in interest and dividend income resulted primarily from a \$126,000, or 7.6%, increase in interest income from loans and a \$20,000, or 6.1%, increase in interest income from investments. Average interest-earning assets increased by \$5.3 million, or 3.7%, to \$148.2 million for the three months ended June 30, 2007 from \$142.9 million for the three months ended June 30, 2006. The yield on interest earning assets increased by 20 basis points to 5.75% for the three months ended June 30, 2007 compared to 5.55% for the three months ended June 30, 2006, reflecting modest increases in long-term rates.

**Interest Expense.** Interest expense increased \$258,000, or 23.4%, to \$1.3 million for the three months ended June 30, 2007 from \$1.1 million for the three months ended June 30, 2006. The increase in interest expense resulted from an increase in both the average balance and average cost of interest-bearing liabilities. The average balance of interest-bearing liabilities increased \$8.0 million, or 6.4%, to \$134.0 million for the three months ended June 30, 2007 compared to \$126.0 million for the three months ended June 30, 2006. The average cost of interest-bearing liabilities increased by 57 basis points to 3.94% for the three months ended June 30, 2007 from 3.37% for the three months ended June 30, 2006. The average cost of deposit accounts increased by 56 basis points to 3.75% for the three months ended June 30, 2007 compared to 3.19% for the three months ended June 30, 2006. In addition, the average cost of Federal Home Loan Bank advances increased by 65 basis points to 4.97% for the three months ended June 30, 2007 compared to 4.32% for the three months ended June 30, 2006. The increase in interest expense reflects higher cost for new and renewing certificates of deposits and borrowings over the last twelve months.

Based upon current market rates, we expect our cost of funds to increase slightly in the third quarter of 2007 which will create additional pressure on our interest rate spread and our ability to be profitable. We have \$16.7 million of certificates of deposit that will mature during the third quarter of 2007 with a weighted average cost of 4.44%. Based on current market rates, if these funds remain with Fairport Savings Bank with similar maturities, the rates we pay on these deposits would increase moderately. We hope to alleviate some of this increase in interest expense with checking and savings account promotions that would result in lower average interest costs.

**Net Interest Income.** Net interest income decreased \$112,000, or 12.1%, to \$810,000 for the three months ended June 30, 2007 from \$922,000 for the three months ended June 30, 2006. The decrease in net interest income was due primarily to a 57 basis point increase in the average cost of our interest-bearing liabilities, while the average yield on our interest-earning assets increased by only 20 basis points, as the flat yield curve continued to decrease our net interest rate spread and net interest margin. Our net interest margin decreased 40 basis points to 2.18% for the three months ended June 30, 2007 from 2.58% for the three months ended June 30, 2006.

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**Provision for Loan Losses.** Based on management's evaluation of the factors that determine the level of the allowance for loan losses, we recorded no provision for loan losses for the three month periods ended June 30, 2007 and June 30, 2006. We continue to maintain exceptional credit quality within our loan portfolio with no charge-offs recorded within the reporting period. The allowance for loan losses as of June 30, 2007 was \$322,000, or 0.27% of total loans, compared to \$331,000, or 0.28% of total loans as of June 30, 2006. We had non-accrual loans totaling \$238,000, or 0.20% of total loans receivable as of June 30, 2007 compared to \$207,000, or 0.18% of loans in non-accrual status as of June 30, 2006.

**Other Income.** Other income decreased \$27,000, or 25.7%, to \$78,000 for the

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three months ended June 30, 2007 compared to \$105,000 for the three months ended June 30, 2006. The decrease in other income was primarily the result of a \$33,000 decrease in our Oakleaf subsidiary revenue.

**Other Expense.** Other expense increased \$187,000, or 21.3%, to \$1.1 million for the three months ended June 30, 2007 compared to \$876,000 for the three months ended June 30, 2006. The increase was the result of an additional \$67,000 in salaries and benefits expense primarily due to annual cost of living raises effective January 1 of each year and staffing of the Irondequoit branch which opened on January 4, 2007, an increase of \$42,000 in occupancy expenses (primarily lease, maintenance and depreciation of the Irondequoit branch), an increase in data processing costs of \$11,000, an increase of \$13,000 in advertising, and an increase of \$54,000 in miscellaneous other expenses, primarily related to the Irondequoit branch as well as increased costs associated with being a newly registered public company.

**Income Tax Expense/Benefit.** We had a pre-tax loss of \$175,000 for the three months ended June 30, 2007 versus a pre-tax profit of \$151,000 for the three months ended June 30, 2006, which resulted in a \$63,000 tax benefit for the three months ended June 30, 2007, versus a \$54,000 tax expense for the three months ended June 30, 2006, a change of \$117,000. The effective tax rate was (36.0%) for the three months ended June 30, 2007 compared to 35.8% for the three months ended June 30, 2006.

Comparison of Operating Results for the Six Months Ended June 30, 2007 and June 30, 2006

**General.** We had a net loss of \$247,000 for the six months ended June 30, 2007 compared to net income of \$164,000 the six months ended June 30, 2006. The decrease was attributable to a decrease in net interest income of \$231,000, a decrease in other income of \$14,000, an increase in other expense of \$396,000, offset by a decrease in income taxes of \$230,000. The decrease in net interest income resulted from a decrease in our net interest margin in a flat yield curve environment and an increase in our other expense resulted primarily from the additional cost of salaries and benefits, occupancy, and other operating expenses incurred in connection with the recent opening and operation of our Irondequoit branch.

**Interest and Dividend Income.** Interest and dividend income increased by \$317,000, or 8.1% to \$4.2 million for the six months ended June 30, 2007 from \$3.9 million for the six months ended June 30, 2006. The increase in interest and dividend income resulted primarily from a \$324,000, or 10.0%, increase in interest income from loans, partially offset with a \$7,000, or 1.1%, decrease in interest income from investments. Average interest-earning assets increased by \$5.9 million, or 4.2%, to \$147.2 million for the six months ended June 30, 2007 from \$141.2 million for the six months ended June 30, 2006. The yield on interest earning assets increased by 21 basis points to 5.74% for the six months ended June 30, 2007 compared to 5.53% for the six months ended June 30, 2006, reflecting modest increases in long-term rates and an asset structure containing a large percentage of fixed rate mortgages.

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**Interest Expense.** Interest expense increased \$548,000, or 27.1%, to \$2.6 million for the six months ended June 30, 2007 from \$2.0 million for the six months ended June 30, 2006. The increase in interest expense resulted from an increase in both the average balance and average cost of interest-bearing liabilities. The average balance of interest-bearing liabilities increased \$8.4 million, or 6.8%, to \$133.0 million for the six months ended June 30, 2007 compared to \$124.6 million for the six months ended June 30, 2006. The average cost of interest-bearing liabilities increased by 62 basis points to 3.87% for the six months ended June 30, 2007 from 3.25% for the six months ended June 30,

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2006. The average cost of deposit accounts increased by 62 basis points to 3.66% for the six months ended June 30, 2007 compared to 3.04% for the six months ended June 30, 2006. In addition, the average cost of Federal Home Loan Bank advances increased by 56 basis points to 4.88% for the six months ended June 30, 2007 compared to 4.32% for the six months ended June 30, 2006. The interest expense increase was primarily attributable to the deposit customer preference for high yielding certificates of deposits in the higher short term interest rate environment that we have been experiencing.

**Net Interest Income.** Net interest income decreased \$231,000, or 12.3%, to \$1.7 million for the six months ended June 30, 2007 from \$1.9 million for the six months ended June 30, 2006. The decrease in net interest income was due primarily to a 62 basis point increase in the average cost of our interest-bearing liabilities, while the average yield on our interest-earning assets increased by only 21 basis points, as the flat yield curve continued to decrease our net interest rate spread and net interest margin. Our net interest margin decreased 42 basis points to 2.24% for the six months ended June 30, 2007 from 2.66% for the six months ended June 30, 2006.

**Provision for Loan Losses.** Based on management's evaluation of the factors that determine the level of the allowance for loan losses, we recorded no provision for loan losses for the six month periods ended June 30, 2007 and June 30, 2006. We continue to maintain exceptional credit quality within our loan portfolio with no charge-offs recorded within the reporting period. The allowance for loan losses as of June 30, 2007 was \$322,000, or 0.27% of total loans, compared to \$331,000, or 0.28% of total loans as of June 30, 2006. We had non-accrual loans totaling \$238,000, or 0.20% of total loans receivable as of June 30, 2007 compared to \$207,000, or 0.18% of loans in non-accrual status as of June 30, 2006.

**Other Income.** Other income decreased \$14,000, or 8.1%, to \$159,000 for the six months ended June 30, 2007 compared to \$173,000 for the six months ended June 30, 2006. The decrease in non-interest income was primarily the result of a \$35,000 decrease in our Oakleaf subsidiary revenue, partially offset by a \$12,000 increase in service fees and a \$9,000 increase in other income.

**Other Expense.** Other expense increased \$396,000, or 22.0%, to \$2.2 million for the six months ended June 30, 2007 compared to \$1.8 million for the six months ended June 30, 2006. The increase was the result of an additional \$158,000 in salaries and benefits expense primarily due to annual cost of living raises effective January 1 of each year and staffing of the Irondequoit branch which opened on January 4, 2007, an increase of \$82,000 in new occupancy expenses (primarily lease, maintenance and depreciation of the Irondequoit branch), an increase in data processing costs of \$16,000, an increase of \$81,000 in advertising expense, and an increase of \$59,000 in miscellaneous other expenses related to the Irondequoit branch as well as increased costs associated with being a newly registered public company.

**Income Tax Expense/Benefit.** We had a pre-tax loss of \$385,000 for the six months ended June 30, 2007 versus a pre-tax profit of \$256,000 for the six months ended June 30, 2006, which resulted in a \$138,000 tax benefit for the six months ended June 30, 2007, versus a \$92,000 tax expense for the six months ended June 30, 2006, a change of \$230,000. The effective tax rate was (35.8%) for the six months ended June 30, 2007 compared to 35.9% for the six months ended June 30, 2006.

### Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows,

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loan repayments, advances from the Federal Home Loan Bank of New York, maturities and principal repayments of securities, and recently, but to a lesser extent, loan sales. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. Our asset/liability management committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We seek to maintain a liquidity ratio of 4.0% or greater. For the six ended June 30, 2007, our liquidity ratio averaged 5.6%. We believe that we have enough sources of liquidity to satisfy our short- and long-term liquidity needs as of June 30, 2007. We anticipate that we will continue to maintain current liquidity levels following the completion of the stock offering.

We regularly adjust our investments in liquid assets based upon our assessment of:

- (i) expected loan demand;
- (ii) expected deposit flows;
- (iii) yields available on interest-earning deposits and securities; and
- (iv) the objectives of our asset/liability management program.

Excess liquid assets are invested generally in interest-earning deposits, short- and intermediate-term securities and federal funds sold.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At June 30, 2007, cash and cash equivalents totaled \$9.7 million.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included in our Consolidated Financial Statements.

At June 30, 2007, we had \$4.4 million in loan commitments outstanding. In addition to commitments to originate loans, we had \$7.7 million in unused lines of credit to borrowers. Certificates of deposit, including individual retirement accounts comprised solely of certificates of deposits, due within one year of June 30, 2007, totaled \$55.7 million, or 64.7% of our certificates of deposit and 44.5% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including loan sales, other deposit products, including certificates of deposit, and Federal Home Loan Bank advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit at June 30, 2007. We believe, however, based on past experience that a significant portion of such deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activity is originating loans. During the six months ended June 30, 2007, we originated \$7.3 million of loans, and during the six months ended June 30, 2006, we originated \$15.7 million of loans. We purchased \$5.0 million of securities held-to-maturity during the six months ended June 30,

2007 year as compared to \$1.5 million of securities-held-to-maturity during the six months ended June 30, 2006.

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Financing activities consist primarily of activity in deposit accounts and Federal Home Loan Bank advances. We experienced a net increase in total deposits of \$16.6 million for the six months ended June 30, 2007 compared to a net increase of \$6.2 million for the six months ended June 30, 2006. Of the \$16.6 million increase, \$5.6 million was attributable to funds received in our stock offering. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of New York, which provides an additional source of funds. Federal Home Loan Bank advances decreased by \$8.0 million to \$20.0 million for the six months ended June 30, 2007, compared to a net decrease of \$1.5 million during the six months ended June 30, 2006. Federal Home Loan Bank advances have primarily been used to fund loan demand. At June 30, 2007, we had the ability to borrow approximately \$89.4 million from the Federal Home Loan Bank of New York, of which \$20.0 million had been advanced.

Fairport Savings Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At June 30, 2007, Fairport Savings Bank exceeded all regulatory capital requirements. The Bank's leverage (Tier 1) capital at June 30, 2007 was \$13.3 million, or 8.25% of adjusted assets. In order to be classified as "well capitalized" under regulatory guidelines, the Bank is required to have Tier 1 capital of \$8.0 million, or 5.00% of adjusted assets. To be classified as a well capitalized bank under regulatory guidelines, the Bank must have a total risk-based capital ratio of 10.0%. The Bank's total risk-based capital ratio at June 30, 2007 was 18.45%.

The net proceeds from the stock offering will increase our liquidity and capital resources. Over time, the initial level of liquidity will be reduced as net proceeds from the stock offering are used for general corporate purposes, including the funding of loans. Our financial condition and results of operations will be enhanced by the net proceeds from the stock offering, resulting in increased net interest-earning assets and net interest income. However, due to the increase in equity resulting from the net proceeds raised in the stock offering, our return on equity will be adversely affected following the stock offering.

### Off-Balance Sheet Arrangements

In the ordinary course of business, Fairport Savings Bank is a party to credit-related financial instruments with off-balance sheet risk to meet the financing needs of our customers. These financial instruments include commitments to extend credit. We follow the same credit policies in making commitments as we do for on-balance sheet instruments.

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. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by us, is based on our credit evaluation of the customer.

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At June 30, 2007 and 2006, we had \$4.4 million and \$6.5 million, respectively, of commitments to grant loans, and \$7.7 million and \$7.3 million, respectively, of unfunded commitments under lines of credit.

### Item 3. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no significant changes made in the Company's internal control over financial reporting or in other factors that could significantly affect the Company's internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## Part II - Other Information

### Item 1. Legal Proceedings

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company's financial condition or results of operations.

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

- (a) There were no sales of unregistered securities during the period covered by this Report.
- (b) On August 10, 2007 the Company completed its initial public stock offering. In connection with this offering, the Company registered 1,305,308 shares of its common stock, par value \$0.10 per share, on a Registration Statement on Form SB-2, declared effective on May 14, 2007 (Commission File No. 333-141380). In the offering, the Company sold 838,950 shares of its common stock to its eligible account holders, the Bank's employee stock ownership plan and the public for gross offering proceeds of \$8,389,500. Costs of approximately \$855,000 associated with the Offering were deducted from the gross proceeds resulting in approximate net proceeds of \$7,534,500.

Sandler O'Neill & Partners, L.P. was engaged to assist in the marketing of the Company's common stock in the offering. For these services, Sandler O'Neill & Partners, L.P. received a fee of \$150,000. Sandler O'Neill & Partners, L.P. was also reimbursed for reasonable out-of-pocket expenses.

The Company lent approximately \$700,000 to the ESOP of the Bank in connection with the stock offering. In addition to the funds used for the ESOP loan, approximately \$3 million of the net proceeds of the offering was retained by the Company and the remainder of the net proceeds was contributed to the Bank. All of such proceeds have been invested in short-term investments.

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- (c) There were no issuer repurchases of securities during the period covered by this Report.

## Item 3. Defaults Upon Senior Securities

Not applicable.

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

During the period covered by this report, the Company did not submit any matters to the vote of security holders.

## Item 5. Other Information

Not applicable

## Item 6. Exhibits

The following exhibits are either filed as part of this report or are incorporated herein by reference:

- 3.1 Charter of FSB Community Bankshares, Inc.\*
- 3.2 Bylaws of FSB Community Bankshares, Inc.\*
- 4 Form of Common Stock Certificate of FSB Community Bankshares, Inc.\*
- 10.1 Employment Agreement between FSB Community Bankshares, Inc. and Dana C. Gavenda\*
- 10.2 Supplemental Executive Retirement Plan\*
- 10.3 Form of Employee Stock Ownership Plan\*
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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\* Filed as exhibits to the Company's Registration Statement on Form SB-2, and any amendments thereto, with the Securities and Exchange Commission (Registration No. 333-141380).

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## SIGNATURES

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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.

FSB COMMUNITY BANKSHARES, INC.

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Date: August 14, 2007

/s/ Dana C. Gavenda

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Dana C. Gavenda  
President and Chief Executive Officer

Date: August 14, 2007

/s/ Kevin D. Maroney

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Kevin D. Maroney  
Senior Vice President and Chief Financial  
Officer

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