

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

FSB Community Bankshares Inc
Form 10QSB
November 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 September 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

(State or other jurisdiction of
incorporation or organization)

74-3164710

(I.R.S. Employer
Identification Number)

45 South Main Street, Fairport, New York

(Address of Principal Executive Offices)

14450

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 X NO .

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

--- ---

As of November 13, 2007 there were 1,785,000 shares of the Registrant's common stock, par value \$0.10 per share, outstanding, of which 945,050 shares or, 53% were held by FSB Community Bankshares, MHC, the Registrant's mutual holding company.

FSB Community Bankshares, Inc.

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

FORM 10-QSB

Index

Page

Part I. Financial Information

Item 1.	Consolidated Financial Statements (unaudited) Consolidated Balance Sheets as of September 30, 2007 and December 31, 2006	1
	Consolidated Statements of Operations for the Three Months Ended September 30, 2007 and 2006	2
	Consolidated Statements of Operations for the Nine Months Ended September 30, 2007 and 2006	3
	Consolidated Statements of Stockholders' Equity for the Nine Months Ended September 30, 2007 and 2006	4
	Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2007 and 2006	5
	Notes to Consolidated Financial Statements	7
	Item 2. Management's Discussion and Analysis or Plan of Operations	11
Item 3.	Controls and Procedures	23

Part II. Other Information

Item 1.	Legal Proceedings	23
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	23
Item 3.	Defaults upon Senior Securities	23
Item 4.	Submission of Matters to a Vote of Security Holders	24
Item 5.	Other Information	24
Item 6.	Exhibits	24
	Signatures Page	25

Part I. Financial Information

Item 1.	Consolidated Financial Statements
---------	-----------------------------------

FSB COMMUNITY BANKSHARES, INC.

Consolidated Balance Sheets
September 30, 2007 and December 31, 2006 (unaudited)

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

(Dollars in thousands, except per share data)

		September 30, 2007
Assets		
Cash and due from banks	\$	1,207
Interest-earning demand deposits		6,745
Cash and Cash Equivalents		7,952
Securities available for sale		447
Securities held to maturity (fair value 2007 - \$29,588, 2006 - \$23,873)		29,617
Investment in FHLB stock		1,143
Loans receivable, net of allowance for loan losses (2007 - \$319 2006 - \$322)		122,500
Foreclosed real estate		41
Accrued interest receivable		861
Premises and equipment, net		2,578
Other assets		278
Total Assets	\$	165,417
Liabilities & Stockholders' Equity		
Deposits:		
Non-interest bearing	\$	3,433
Interest bearing		117,763
Total Deposits		121,196
Short term borrowings		-
Long term borrowings		19,770
Advances from borrowers for taxes and insurance		1,951
Other liabilities		2,195
Total Liabilities		145,112
Stockholders' 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; shares issued and outstanding - 2007 - 1,785,000; 2006 - 100		179
Additional paid-in-capital		7,291
Retained earnings		13,257
Accumulated other comprehensive income		252
Unearned ESOP shares - at cost		(674)
Total Stockholders' Equity		20,305

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

Total Liabilities and Stockholders' Equity

\$ 165,417

See accompanying notes to consolidated financial statements

1

FSB COMMUNITY BANKSHARES, INC.

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

	2007
Interest and Dividend Income	
Loans	\$ 1,819
Securities - taxable	293
Mortgage - backed securities	76
Other	120
Total Interest and Dividend Income	2,308
Interest Expense	
Deposits	1,146
Borrowings:	
Long term	241
Total Interest Expense	1,387
Net Interest Income	921
Other Income	
Service fees	26
Fee income	25
Realized gain on sale of securities available for sale	81
Other	37
Total Other Income	169
Other Expense	
Salaries and employee benefits	594
Occupancy expense	109
Data processing costs	15
Advertising	63
Equipment expense	77
Electronic banking	24
Directors fees	24
Mortgage fees and taxes	45
Other expense	140
Total Other Expense	1,091
Income (Loss) Before Income Taxes	(1)
Provision for Income Taxes	-

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

Net Income (Loss)	\$	(1)
Basic earnings per common share	\$	
Basic average common shares outstanding		1,38

See accompanying notes to consolidated financial statements

2

FSB COMMUNITY BANKSHARES, INC.

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

		2007
Interest and Dividend Income		
Loans	\$	5,394
Securities - taxable		770
Mortgage-backed securities		199
Other		167
Total Interest and Dividend Income		6,530
Interest Expense		
Deposits		3,173
Borrowings:		
Short term		29
Long term		757
Total Interest Expense		3,959
Net Interest Income		2,571
Other Income		
Service fees		75
Fee income		67
Gain on sale of securities available for sale		81
Other		105
Total Other Income		328
Other Expense		
Salaries and employee benefits		1,767
Occupancy expense		325
Data processing costs		68
Advertising		225
Equipment expense		255
Electronic banking		45

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

Directors fees		77
Mortgage fees and taxes		116
Other expense		407

Total Other Expense		3,285

Income (Loss) Before Income Taxes		(386)
Provision (Benefit) for Income Taxes		(138)

Net Income (Loss)	\$	(248)
		=====
Basic earnings (loss) per common share	\$	(0.23)
Basic average common shares outstanding		1,093

See accompanying notes to consolidated financial statements

3

FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Stockholders' Equity Nine Months Ended September 30, 2007 and 2006 (unaudited) (Dollars in thousands)

	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Compre Inc
	-----	-----	-----	-----	-----
Balance - January 1, 2006	\$ -	\$ -	\$ 10	\$ 13,272	\$
Comprehensive income					
Net income				191	
Change in net unrealized gain on securities available for sale, net of taxes					
Total Comprehensive Income	-	-	-	-	
	-----	-----	-----	-----	-----
Balance - September 30, 2006	\$ -	\$ -	\$ 10	\$ 13,463	\$
	=====	=====	=====	=====	=====
Balance - January 1, 2007	\$ -	\$ -	\$ 10	\$ 13,505	\$
Comprehensive loss					
Net loss				(248)	
Change in net unrealized gain on securities available for sale, net of taxes					
Total Comprehensive Loss					
Shares issued in public offering		179	7,281		

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

Shares purchased by ESOP	-	-	-	-	
ESOP shares committed to be released	-----	-----	-----	-----	-----
Balance - September 30, 2007	\$ -	\$ 179	\$ 7,291	\$ 13,257	\$
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements

4

FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Cash Flows Nine Months Ended September 30, 2007 and 2006 (unaudited) (Dollars in thousands)

		2007
Cash Flows From Operating Activities		-----
Net income (loss)	\$	(248)
Adjustments to reconcile net income (loss) to net cash provided from operating activities:		
Gain on sale of securities available for sale		(81)
Gain on sale of loans		(2)
Net amortization of premiums and discounts on securities		25
Amortization of net deferred loan origination fees		(42)
Depreciation and amortization		224
ESOP expense		26
Deferred income tax benefit		(3)
(Increase) decrease in accrued interest receivable		12
Increase in other assets		(70)
Increase in other liabilities		1,206
Net Cash Provided By Operating Activities		----- 1,047
Cash Flows From Investing Activities		
Purchase of securities held to maturity		(12,366)
Proceeds from maturities and calls of securities held to maturity		6,915
Proceeds from sale of securities available for sale		82
Net increase in loans		(2,108)
Proceeds from sales of loans		748
Net (increase) decrease of Federal Home Loan Bank stock		347
Purchase of premises and equipment		(656)
Proceeds from sale of foreclosed real estate		-
Net Cash Used By Investing Activities		----- (7,038)
Cash Flows From Financing Activities		
Net increase in deposits		12,616
Net decrease in short term borrowings		(4,200)
Proceeds from long-term borrowings		-
Repayments on long-term borrowings		(4,054)

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

Net increase (decrease) in advances from borrowers		123
for taxes and insurance		
Net proceeds from common stock offering		7,460
Purchase of shares for employee stock ownership program		(700)

Net Cash Provided By Financing Activities		11,245

Net Increase (Decrease) in Cash		5,254
and Cash Equivalents		
Cash and Cash Equivalents- Beginning		2,698

Cash and Cash Equivalents- End	\$	7,952
		=====

5

FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Cash Flows, Cont'd

Supplementary Cash Flows Information		2007

Interest paid	\$	3,954
		=====
Income taxes paid	\$	14
		=====
Non-cash Operating, Investing and Financing Activities		
Transfer of loans to foreclosed assets	\$	41
		=====

See accompanying notes to consolidated financial statements

6

Notes to Unaudited Consolidated 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.

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

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.

Operating results for the three and nine months ended September 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 September 30, 2007 and December 31, 2006 and for the three and nine months ended September 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 the current period presentation.

Note 2 - Minority Stock Issuance

On August 10, 2007 the Company completed its initial public stock offering ("Offering"). In the Offering, the Company sold 838,950 shares, or 47.0% of its outstanding common stock, at a price of \$10.00 per share to the Bank's depositors, the Bank's employee stock ownership plan and the public. Additionally, the Company issued 946,050 shares, or 53.0% of its common stock, to FSB Community Bankshares, MHC, the Company's federally chartered mutual holding company parent. Gross proceeds from the Offering were \$8.4 million.

Costs of approximately \$929,000 associated with the Offering have been deducted from the proceeds from the sale of stock.

7

Note 3 - Earnings (Loss) Per Share

The Company had 100 shares of common stock issued and outstanding for the year ended December 31, 2006 and from January 1, 2007 to August 10, 2007. On August 10, 2007 the Company issued 1,785,000 shares of common stock and cancelled 100 shares.

Basic earnings (loss) per common share is calculated by dividing the net income (loss) by the weighted-average number of common shares outstanding during the period. The common shares issued to FSB Community Bankshares, MHC of 946,050 are assumed to be outstanding for all periods presented, consistent with the provisions of SFAS No. 128, Earnings per Share, pertaining to changes in capital structure. The 838,950 shares issued to the public are included in the weighted average common shares outstanding calculation since the date of their issuance. Unallocated common shares held by the ESOP are not included in the weighted-average number of common shares outstanding for purposes of calculating basic earnings per common share until they are committed to be released. The Company has not granted any restricted stock awards or stock options and, during the nine months ended September 30, 2007 and 2006, had no potentially dilutive common stock equivalents.

Note 4 - Comprehensive Income (Loss)

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

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 Stockholders' 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 nine months ended September 30, 2007 and 2006 are as follows:

		For the Three Months Ended September 2007 -----	
			(In Thousands)
Unrealized holding gain (loss) on available for sale securities	\$	(9)	
Less reclassification adjustment for realized gains included in net income (loss)		(81)	

Net unrealized gain (loss)		(90)	
Tax effect		31	

Net of tax amount	\$	(59)	\$
		=====	

Note 5 - Employee Stock Ownership Plan

In connection with the Offering described in Note 2, the Bank established an Employee Stock Ownership Plan ("ESOP") for its employees which acquired 69,972 shares of the Company's common stock in connection with the Offering with funds provided by a loan from the Company. Accordingly, \$699,720 of common stock acquired by the ESOP is shown as a reduction of stockholders' equity. The ESOP loan will be repaid principally from the Bank's contributions to the ESOP. The loan is being repaid in annual installments through 2026 and bears interest at Wall Street Journal prime lending rate (7.75% at September 30, 2007). Shares are released to participants proportionately as the loan is repaid.

The Company accounts for the ESOP in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position 93-6. The cost of shares issued to the ESOP but not yet allocated to participants is presented in the consolidated statement of financial condition as a reduction of stockholders' equity. Compensation expense is recorded based on the market price of the shares as they are committed to be released for allocation to participant accounts. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to additional paid-in capital. Dividends on allocated shares will be recorded as a reduction of retained earnings, and dividends on unallocated shares, if any, will be recorded as a reduction of debt. The Company recognized \$26,000 of compensation expense for the quarter and nine months ended September 30, 2007.

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

Shares will be considered outstanding for earnings per share calculations when they are committed to be released; unallocated shares will not be considered outstanding.

Note 6 - Regulatory Capital Requirements

At September 30, 2007, the Bank met each of its minimum regulatory capital requirements. The following table summarizes the Bank's regulatory capital position at September 30, 2007:

(Dollars in thousands)	Actual -----		Minimum For Capital Adequacy Purposes -----	
	Amount -----	Ratio -----	Amount -----	Ratio -----
At September 30, 2007:				
Tangible (to adjusted total assets)	\$16,304	10.05%	\$2,432	1.50%
Tier I (to risk-weighted assets)	16,304	21.90	2,978	4.00
Core (to adjusted total assets)	16,304	10.05	6,487	4.00
Total (to risk-weighted assets)	16,623	22.33	5,956	8.00

9

Note 7 - 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 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

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

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 the beginning of an entity's first fiscal year that begins after November 15, 2007 (i.e., January 1, 2008 for the Company). We are evaluating the impact, if any, of the adoption of SFAS 159 on our consolidated financial statements.

10

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 September 30, 2007, FSB Community Bankshares, MHC the Company's mutual holding company parent, held 53% of the Company's outstanding common stock, engaged in no significant activities and was not included in the MD&A.

On August 10, 2007, the Company sold 838,950 shares, or 47% of its common stock, to subscribers in connection with its initial public stock offering, including 69,972 shares purchased by Fairport Savings Bank Employee Stock Ownership Plan. Upon completion of the transaction, FSB Community Bankshares, MHC, the Company's federally chartered mutual holding company parent, held 946,050 shares or 53% of the Company's outstanding common stock. Net proceeds from the initial public offering were approximately \$7.5 million.

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 area 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.

11

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 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 the Bank's 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 realizable on the related loans.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. Management considers 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. Management also analyzes 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

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

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 September 30, 2007 and December 31, 2006

Total Assets. Total assets increased by \$12.1 million, or 7.9%, to \$165.4 million at September 30, 2007 from \$153.3 million at December 31, 2006. The primary increase in total assets reflected increases in cash and cash equivalents of \$5.3 million, securities held to maturity of \$5.4 million, and loans receivable of \$1.4 million. Asset growth was funded by subscription funds from the Company's stock offering that closed in August 2007 and increased cash and cash equivalents resulting from deposit growth primarily in the Irondequoit branch since opening in January 2007. Premises and equipment increased by \$432,000 mainly due to additional building and equipment costs associated with the Irondequoit branch.

12

Cash and cash equivalents increased by \$5.3 million, or 196.3% to \$8.0 million at September 30, 2007 from \$2.7 million at December 31, 2006. The increase was primarily due to proceeds received from the Company's stock offering, which were held in interest earning cash deposits at correspondent banks. It is anticipated that the proceeds will be used for short term investments and funding loan demand in the fourth quarter of 2007.

Loans receivable increased by \$1.4 million, or 1.2%, to \$122.5 million at September 30, 2007 from \$121.1 million at December 31, 2006. The increase in loans receivable was the result of fixed rate mortgage loan and fixed rate home equity originations, offset partially by principal reductions in commercial real estate loans. The Bank has experienced an increase in fixed rate home equity loan volume with less demand for adjustable home equity loans in the current interest rate environment. The Bank continues not to be involved in, and has no exposure to, sub-prime lending activities.

Investment securities increased by \$5.3 million, or 21.3%, to \$30.1 million at September 30, 2007 from \$24.8 million at December 31, 2006. The increase was primarily attributable to \$9.9 million in purchases of United States Government agency securities, \$2.5 million in purchases of adjustable rate mortgage-backed securities, partially offset by the maturity of \$5.7 million of United States Government agency securities, \$1.2 million of principal payments received from mortgage-backed securities, the sale of \$82,000 of FHLMC common stock, and a \$79,000 decrease in the fair market value of securities classified as available for sale.

Deposits and Borrowings. Deposits increased by \$12.6 million, or 11.6%, to \$121.2 million at September 30, 2007 from \$108.6 million at December 31, 2006. Certificates of deposit, including IRAs, increased by \$9.7 million, and transaction accounts, including checking, money market and savings accounts, increased by \$2.9 million. In the first nine months of 2007 we experienced modest growth in both the number and size of checking and savings accounts. In the current interest rate environment, our customer base still favors short term traditional certificates of deposits with a maturity of one year or less. The net deposit growth was primarily attributable to \$11.0 million in deposit growth in the Irondequoit branch since opening on January 4, 2007.

Borrowings decreased by \$8.2 million, or 29.3%, to \$19.8 million at September 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

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

Federal Home Loan Bank borrowings by \$4.0 million. These funding sources were replaced by deposits obtained primarily in our Irondequoit branch.

Other liabilities increased by \$1.2 million, or 120.0%, to \$2.2 million at September 30, 2007 from \$1.0 million at December 31, 2006. This increase was attributable to \$1.8 million in outstanding official bank checks at September 30, 2007, compared to \$516,000 in outstanding official bank checks at December 31, 2006, caused by the payment of property taxes due at the end of September from customer mortgage escrow accounts.

Total Stockholders' Equity. Total stockholders' equity increased by \$6.4 million, or 46.0%, to \$20.3 million at September 30, 2007 from \$13.9 million at December 31, 2006. The increase was attributable to the Company's public offering that generated net proceeds of \$7.5 million after payment of \$929,000 in offering expenses. Net proceeds of \$699,720 were used to purchase stock for the Employee Stock Ownership Plan. In addition, the Company had a net loss of \$248,000 for the nine months ended September 30, 2007.

13

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

	September 30, 2007 2007 -----	(Dollars in thou
Non-accrual loans:		
Real estate loans:		
One- to four-family residential.....	\$ -	
Home equity lines of credit.....	100	
Multi-family residential.....	-	
Construction.....	-	
Commercial.....	-	

Other loans.....		
Total.....	100	

Accruing loans 90 days or more past due:		
Total non-performing loans.....	100	

Foreclosed real estate.....	41	
Other non-performing assets.....	-	

Total non-performing assets.....	\$ 141	

Ratios:		
Total non-performing loans to total loans		0.08%
Total non-performing loans to total assets		0.06%
Total non-performing assets to total assets		0.09%

At September 30, 2007, there were no other loans or other assets that are not

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

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.

14

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 End			
	2007			
	Average Balance	Interest Income/ Expense	Yield/ Cost	
Interest-earning assets:				
Loans.....	\$ 121,315	\$ 1,819	6.00%	\$
Securities - taxable.....	22,011	293	5.32	
Mortgage-backed securities....	7,221	76	4.21	
Other.....	9,229	120	5.20	
	-----	-----	-----	
Total interest-earning assets	159,776	2,308	5.78	
	-----	-----	-----	
Noninterest-earning assets....	7,242			

Total assets.....	\$ 167,018			\$
	=====			=====
Interest-bearing liabilities:				
NOW accounts.....	\$ 6,336	10	0.63	\$
Passbook savings.....	17,913	56	1.25	
Money market savings.....				
Individual retirement accounts	10,681	79	2.96	
	16,021	181	4.52	
Certificates of deposit.....	70,975	820	4.62	
Borrowings.....	19,838	241	4.86	
	-----	-----	-----	
Total interest-bearing liabilities.....	141,764	1,387	3.91%	
	-----	-----	-----	
Noninterest-bearing liabilities:				
Demand deposits.....	3,222			
Other.....	2,079			

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

Total liabilities.....	147,065		
Stockholders' equity.....	19,953		

Total liabilities and Stockholders' equity.....	\$ 167,018		\$
=====			
Net interest income.....		\$ 921	
=====			
Interest rate spread (1).....			1.87%
=====			
Net interest-earning assets (2)	\$ 18,012		\$
=====			
Net interest margin (3).....		2.31%	
=====			
Average interest-earning assets to average interest-bearing liabilities	113%		11
=====			

- (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.

15

	For the Nine Months End		
	2007		
	Average Balance	Income/Expense	Interest Yield/Cost
	-----	-----	-----
Interest-earning assets:			
Loans.....	\$ 120,622	\$ 5,394	5.96%
Securities - taxable.....	20,067	770	5.12
Mortgage-backed securities....	6,339	199	4.19
Other.....	4,322	167	5.15

Total interest-earning assets	151,350	6,530	5.75

Noninterest-earning assets....	5,636		

Total assets.....	\$ 156,986		\$
=====			

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

Interest-bearing liabilities:				
NOW accounts.....	\$ 5,537	26	0.63	\$
Passbook savings.....	14,542	132	1.21	
Money market savings.....	10,498	225	2.86	
Individual retirement accounts	15,578	511	4.37	
Certificates of deposit.....	68,234	2,279	4.45	
Borrowings.....	21,519	786	4.87	
	-----	-----		
Total interest-bearing liabilities.....	135,908	3,959	3.88%	
	-----	-----	-----	
Noninterest-bearing liabilities:				
Demand deposits.....	3,197			
Other.....	2,294			

Total liabilities.....	141,399			
Stockholders' equity.....	15,587			

Total liabilities and Stockholders' equity.....	\$ 156,986			\$
	=====			=====
Net interest income.....		\$ 2,571		
		=====		
Interest rate spread (1).....			1.87%	
			=====	
Net interest-earning assets (2)	\$ 15,442			\$
	=====			=====
Net interest margin (3).....		2.26%		
		=====		
Average interest-earning assets to average interest-bearing liabilities				
		111%		
		=====		=====

-
- (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.

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

General. We had a net loss of \$1,000 for the three months ended September 30, 2007 compared to net income of \$27,000 for the three months ended September 30, 2006. The \$28,000 decrease was attributable to a \$3,000 decrease in net interest income, \$118,000 increase in other expenses, partially offset by an \$83,000 increase in other income, and a \$10,000 decrease in the provision for income taxes.

Interest and Dividend Income. Interest and dividend income increased by \$226,000, or 10.8% to \$2.3 million for the three months ended September 30, 2007 from \$2.1 million for the three months ended September 30, 2006. The increase in

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

interest and dividend income resulted from a \$103,000 increase in other interest income due to a higher volume of interest earning cash deposits at correspondent banks due to proceeds received from the Company's stock offering, an increase in loans of \$66,000 with larger volumes in mortgages and home equity loans, an increase in securities income of \$53,000 with additional volume in investments, and an increase in interest on mortgage backed securities of \$4,000. Average interest-earning assets increased by \$12.4 million, or 8.4%, to \$159.8 million for the three months ended September 30, 2007 from \$147.4 million for the three months ended September 30, 2006. The average yield on interest earning assets increased by 13 basis points to 5.78% for the three months ended September 30, 2007 compared to 5.65% for the three months ended September 30, 2006 reflecting modest increases in most asset categories yields with higher yielding assets added to their respective categories within the last year.

Interest Expense. Interest expense increased \$229,000, or 19.1%, to \$1.4 million for the three months ended September 30, 2007 from \$1.2 million for the three months ended September 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 \$12.5 million, or 9.7%, to \$141.8 million for the three months ended September 30, 2007 compared to \$129.3 million for the three months ended September 30, 2006. The average cost of interest-bearing liabilities increased by 33 basis points to 3.91% for the three months ended September 30, 2007 from 3.58% for the three months ended September 30, 2006. The average cost of deposit accounts increased by 39 basis points to 3.76% for the three months ended September 30, 2007 compared to 3.37% for the three months ended December 31, 2006. In addition, the average cost of borrowings from the Federal Home Loan Bank increased by 22 basis points to 4.86% for the three months ended September 30, 2007 compared to 4.64% for the three months ended September 30, 2006. The increase in interest expense reflects the trend of rising interest rates for new and renewing deposits over the last twelve months.

Based upon current market rates, we expect our cost of funds to stabilize in the fourth quarter of 2007. We have \$22.2 million of certificates of deposit that will mature during the fourth quarter of 2007 with a weighted average cost of 4.49%. Based on current market rates, if these funds remain with Fairport Savings Bank with similar maturities, the rates we pay on these deposits would not materially change.

17

Net Interest Income. Net interest income decreased \$3,000, or 0.3%, to \$921,000 for the three months ended September 30, 2007 from \$924,000 for the three months ended September 30, 2006. The decrease in net interest income was due primarily to a 33 basis point increase in the average cost of our interest-bearing liabilities, while the average yield on our interest-earning assets increased by only 13 basis points. The decrease in the net interest income was primarily due to the interest rate sensitive liabilities on our balance sheet consisting mainly of savings, money market and certificates of deposit accounts repricing at a higher interest rate and at a faster speed compared to the assets on our balance sheet that are comprised of mainly fixed rate securities and loans. Our net interest margin decreased 20 basis points to 2.31% for the three months ended September 30, 2007 from 2.51% for the three months ended September 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 three month periods ended September 30, 2007 and September 30, 2006. We continue to maintain exceptional credit quality within our loan portfolio with one charge-off for \$3,000 recorded for the three months ended September 30, 2007. The allowance for loan losses as of September

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

30, 2007 was \$319,000, or 0.26% of total loans, compared to \$322,000, or 0.27% of total loans as of December 31, 2006. We had non-accrual loans totaling \$100,000, or 0.08% of total loans receivable as of September 30, 2007 compared to \$171,000, or 0.14% of loans receivable in non-accrual status as of September 30, 2006. We had \$41,000 in foreclosed real estate as of September 30, 2007 and no foreclosed real estate as of December 31, 2006.

Other Income. Other income increased by \$83,000, or 96.5%, to \$169,000 for the three months ended September 30, 2007 compared to \$86,000 for the three months ended September 30, 2006. The increase in other income was primarily the result of an \$81,000 gain on the sale of available for sale securities.

Other Expense. Other expense increased \$118,000, or 12.1%, to \$1.1 million for the three months ended September 30, 2007 compared to \$973,000 for the three months ended September 30, 2006. The increase was the result of \$29,000 in additional salaries and benefits expense primarily due to annual cost of living raises, staffing of the Irondequoit branch, ESOP expense of \$26,000, an increase of \$47,000 in occupancy expenses consisting primarily of leasing costs, maintenance and depreciation of the Irondequoit branch, an increase of \$12,000 in advertising due to direct mail costs of a free checking program, and an increase of \$46,000 in miscellaneous other expenses, primarily related to the Irondequoit branch as well as increased costs associated with being a newly registered public company, partially offset by a decrease in data processing costs of \$16,000 by switching vendors for POS/ debit card processing.

Income Tax Expense/Benefit. We had a pre-tax loss of \$1,000 for the three months ended September 30, 2007 versus a pre-tax profit of \$37,000 for the three months ended September 30, 2006, which resulted in no provision for income taxes for the three months ended September 30, 2007, versus a \$10,000 provision for income taxes for the three months ended September 30, 2006, a change of \$10,000.

Comparison of Operating Results for the Nine Months Ended September 30, 2007 and September 30, 2006

General. We had a net loss of \$248,000 for the nine months ended September 30, 2007 compared to net income of \$191,000 for the nine months ended September 30, 2006. The \$439,000 decrease was attributable to a decrease in net interest income of \$234,000, an increase in other expense of \$514,000, offset partially by an increase in other income of \$69,000, and a decrease in income taxes of \$240,000. The decrease in net interest income resulted from a decrease in our net interest margin of 35 basis points and the increase in other expenses

18

resulted primarily from the additional cost of salaries and benefits, occupancy, and other operating expenses incurred in connection with the operation of our Irondequoit branch that opened in January 2007. The increase in other income was primarily the result of an \$81,000 gain on sale of securities available for sale.

Interest and Dividend Income. Interest and dividend income increased by \$543,000, or 9.1% to \$6.5 million for the nine months ended September 30, 2007 from \$6.0 million for the nine months ended September 30, 2006. The increase in interest and dividend income resulted primarily from a \$390,000, or 7.8%, increase in interest income from loans with larger volumes of mortgages and home equity loans, a \$104,000, or 165.1% increase in other interest from short term interest earning cash deposits at correspondent banks, a \$78,000, or 11.3% increase in securities income resulting from additional volume in Government Agency bonds, partially offset by a \$29,000, or 12.7%, decrease in interest income resulting from a decrease in mortgage backed securities volume. Average interest-earning assets increased by \$8.1 million, or 5.7%, to \$151.4 million

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

for the nine months ended September 30, 2007 from \$143.3 million for the nine months ended September 30, 2006. The yield on interest earning assets increased by 18 basis points to 5.75% for the nine months ended September 30, 2007 compared to 5.57% for the nine months ended September 30, 2006, reflecting modest increases with higher yielding mortgages, securities and interest earning cash deposits.

Interest Expense. Interest expense increased \$777,000, or 24.3%, to \$4.0 million for the nine months ended September 30, 2007 from \$3.2 million for the nine months ended September 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 \$10.0 million, or 7.9%, to \$135.9 million for the nine months ended September 30, 2007 compared to \$125.9 million for the nine months ended September 30, 2006. The average cost of interest-bearing liabilities increased by 51 basis points to 3.88% for the six months ended September 30, 2007 from 3.37% for the nine months ended September 30, 2006. The average cost of deposit accounts increased by 55 basis points to 3.70% for the nine months ended September 30, 2007 compared to 3.15% for the nine months ended September 30, 2006. In addition, the average cost of Federal Home Loan Bank advances increased by 39 basis points to 4.87% for the nine months ended September 30, 2007 compared to 4.48% for the nine months ended September 30, 2006. The interest expense increase was primarily attributable to customer preference for higher yielding certificates of deposits in the higher short term interest rate environment that we are currently experiencing. We did offer higher than market promotional interest rates on savings, money market and certificate of deposit accounts in the Irondequoit branch during the first six months of 2007; however we will experience lower cost of funds and some deposit run-off as the certificates of deposit begin to renew in the fourth quarter of 2007.

Net Interest Income. Net interest income decreased \$234,000, or 8.4%, to \$2.6 million for the nine months ended September 30, 2007 from \$2.8 million for the nine months ended September 30, 2006. The decrease in net interest income was due primarily to a 51 basis point increase in the average cost of our interest-bearing liabilities, while the average yield on our interest-earning assets increased by only 18 basis points, as the flat yield curve that we experienced for much of the 9 months ended September 30, 2007 continued to decrease our net interest rate spread and net interest margin. Our net interest margin decreased 35 basis points to 2.26% for the nine months ended September 30, 2007 from 2.61% for the nine months ended September 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 nine month periods ended September 30, 2007 and September 30, 2006. We continue to maintain exceptional credit quality within our loan portfolio with one charge-off for \$3,000 recorded for the nine months ended September 30, 2007. The allowance for loan losses as of September 30, 2007 was \$319,000, or 0.26% of total loans, compared to \$322,000, or 0.27%

19

of total loans as of December 31, 2006. We had non-accrual loans totaling \$100,000, or 0.08% of total loans receivable as of September 30, 2007 compared to \$171,000, or 0.14% of loans in non-accrual status as of December 31, 2006. We had \$41,000 in foreclosed real estate as of September 30, 2007 and no foreclosed real estate as of December 31, 2006.

Other Income. Other income increased \$69,000, or 26.6%, to \$328,000 for the nine months ended September 30, 2007 compared to \$259,000 for the nine months ended September 30, 2006. The increase in other income was primarily the result of an \$81,000 realized gain on the sale of available for sale securities, an increase of \$18,000 in service fees on overdrawn checking accounts, an

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

increase of \$15,000 in other miscellaneous income including mortgage fees and ATM fees, partially offset by a \$45,000 decrease in fee income from Oakleaf Services Corporation, our subsidiary that offers non-deposit investment products such as annuities, insurance and mutual funds. Oakleaf Services Corporation's decrease in fee income is reflective of typical volume and fee income in the nine months ended September 30, 2007 compared to exceptionally strong volume and fee income in the nine months ended September 30, 2006.

Other Expense. Other expense increased \$514,000, or 18.4%, to \$3.3 million for the nine months ended September 30, 2007 compared to \$2.8 million for the nine months ended September 30, 2006. The increase was the result of an additional \$187,000 in salaries and benefits expense primarily due to annual cost of living raises effective January 1 of each year, staffing of the Irondequoit branch which was not open in 2006, and ESOP expense of \$26,000, an increase of \$129,000 in occupancy expenses consisting primarily of leasing costs, maintenance and depreciation of the Irondequoit branch, an increase of \$93,000 in advertising expense with the Irondequoit branch and direct mail expense associated with a free checking program, and an increase of \$105,000 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 \$386,000 for the nine months ended September 30, 2007 versus a pre-tax profit of \$293,000 for the nine months ended September 30, 2006, which resulted in a \$138,000 tax benefit for the nine months ended September 30, 2007, versus a \$102,000 tax provision for the nine months ended September 30, 2006, a change of \$240,000. The effective tax rate was (35.8%) for the nine months ended September 30, 2007 compared to 34.8% for the nine months ended September 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, 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 nine months ended September 30, 2007, our liquidity ratio averaged 6.8%. We believe that we have enough sources of liquidity to satisfy our short and long-term liquidity needs as of September 30, 2007.

20

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.

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

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 September 30, 2007, cash and cash equivalents totaled \$8.0 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 September 30, 2007, we had \$2.9 million in loan commitments outstanding. In addition to commitments to originate loans, we had \$7.6 million in unused lines of credit to borrowers. Certificates of deposit, including individual retirement accounts comprised solely of certificates of deposit, due within one year of September 30, 2007 totaled \$57.6 million, or 65.7% of our certificates of deposit and 47.5% 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 September 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 nine months ended September 30, 2007, we originated \$12.4 million of loans, and during the nine months ended September 30, 2006, we originated \$23.6 million of loans. We purchased \$12.4 million of securities held-to-maturity during the nine months ended September 30, 2007 year as compared to \$1.5 million of securities-held-to-maturity purchases during the nine months ended September 30, 2006.

Financing activities consist primarily of activity in deposit accounts and Federal Home Loan Bank advances. We experienced a net increase in total deposits of \$12.6 million for the nine months ended September 30, 2007 compared to a net increase of \$3.3 million for the nine months ended September 30, 2006. 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.

21

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 \$8.2 million to \$19.8 million for the nine months ended September 30, 2007, compared to a net increase of \$2.3 million during the nine months ended September 30, 2006. Federal Home Loan Bank advances have primarily been used to fund loan demand. At September 30, 2007, we had the ability to borrow approximately \$94.0 million from the Federal Home Loan Bank of New York, of which \$19.8 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 September 30, 2007, Fairport Savings Bank

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

exceeded all regulatory capital requirements. The Bank's leverage (Tier 1) capital at September 30, 2007 was \$16.3 million, or 10.05% of adjusted assets. In order to be classified as "well capitalized" under regulatory guidelines, the Bank is required to have Tier 1 capital of \$8.1 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 September 30, 2007 was 22.33%.

The net proceeds from the stock offering increased 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 were 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 in periods 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.

At September 30, 2007 and 2006, we had \$2.9 million and \$3.0 million, respectively, of commitments to grant loans, and \$7.6 million and \$7.7 million, respectively, of unfunded commitments under lines of credit.

22

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) The stock offering, which was completed on August 10, 2007, resulted in gross proceeds of \$8.4 million through the sale of 838,950 shares at a price of \$10 per share. Expenses related to the offering were \$929,000. Net proceeds of the offering were approximately \$7.5 million.

The Company loaned \$699,720 to the Bank's ESOP 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 were retained by the Company and the remainder of the net proceeds were contributed to the Bank in the form of additional paid in capital. All such proceeds have been invested in short-term investments or have been used to fund loan originations.

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

Item 3. Defaults Upon Senior Securities

Not applicable.

23

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.*

Edgar Filing: FSB Community Bankshares Inc - Form 10QSB

- 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

* 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).

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.

FSB COMMUNITY BANKSHARES, INC.

Date: November 14, 2007

/s/ Dana C. Gavenda

Dana C. Gavenda
President and Chief Executive Officer

Date: November 14, 2007

/s/ Kevin D. Maroney

Kevin D. Maroney
Senior Vice President and Chief
Financial Officer