

Edgar Filing: FSB Community Bankshares Inc - Form 10-Q

FSB Community Bankshares Inc  
Form 10-Q  
August 14, 2009

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days.

YES    X            NO            .  
-----            -----

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES                    NO                    .  
-----                    -----

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

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Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if smaller reporting company)

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

YES                    NO    X  
-----                    -----

As of August 14, 2009 there were 1,785,000 shares of the Registrant's common stock, par value \$0.10 per share, outstanding, 946,050 of which were held by FSB Community Bankshares, MHC, the Registrant's mutual holding company.

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### Part I. Financial Information

#### Item 1. Consolidated Financial Statements

##### FSB COMMUNITY BANKSHARES, INC.

Consolidated Balance Sheets  
 June 30, 2009 and December 31, 2008 (unaudited)  
 (Dollars in thousands, except per share data)

|  | Assets | June 30,<br>2009 |
|--|--------|------------------|
|  |        | -----            |
| Cash and due from banks  |        | \$ 5,194         |
| Interest-earning demand deposits   |        | 1,085            |
|  |        | -----            |
| Cash and Cash Equivalents  |        | 6,279            |
| Securities available for sale  |        | 63,154           |
| Securities held to maturity (fair value 2009 -\$6,915, 2008- \$7,091)                |        | 6,880            |
| Investment in FHLB stock   |        | 2,028            |
| Loans receivable, net of allowance for loan losses of: 2009 - \$357,<br>2008 - \$345 |        | 120,229          |
| Accrued interest receivable  |        | 969              |
| Premises and equipment, net  |        | 2,364            |
| Other assets   |        | 831              |
|  |        | -----            |
| Total Assets   |        | \$ 202,734       |
|  |        | =====            |
| Liabilities & Stockholders' Equity   |        |                  |
| Deposits:  |        |                  |
| Non-interest-bearing   |        | \$ 3,658         |
| Interest-bearing   |        | 138,370          |
|  |        | -----            |
| Total Deposits   |        | 142,028          |
| Short-term borrowings  |        | -                |
| Long-term borrowings   |        | 37,748           |
| Advances from borrowers for taxes and insurance                                      |        | 2,365            |
| Other liabilities  |        | 627              |
|  |        | -----            |
| Total Liabilities  |        | 182,768          |

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| Stockholders' Equity  |            |
|---|------------|
| Preferred Stock- no par- 1,000,000 shares authorized;<br>no shares issued and outstanding                 | --         |
| Common Stock- \$0.10 par value - 10,000,000 shares authorized;<br>1,785,000 shares issued and outstanding | 179        |
| Additional paid-in-capital  | 7,278      |
| Retained earnings   | 13,327     |
| Accumulated other comprehensive loss  | (206)      |
| Unearned ESOP shares - at cost  | (612)      |
| <hr/>   |            |
| Total Stockholders' Equity  | 19,966     |
| <hr/>   |            |
| Total Liabilities and Stockholders' Equity  | \$ 202,734 |
| <hr/> <hr/>   |            |

See accompanying notes to consolidated financial statements

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FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Operations  
Three Months Ended June 30, 2009 and 2008 (unaudited)  
(Dollars in thousands, except per share data)

|  | 2009     |
|--|----------|
| <hr/>  |          |
| Interest and Dividend Income                           |          |
| Loans  | \$ 1,757 |
| Securities - taxable                                   | 301      |
| Mortgage-backed securities                             | 299      |
| Other  | 2        |
| <hr/>  |          |
| Total Interest and Dividend Income                     | 2,359    |
| <hr/>  |          |
| Interest expense                                       |          |
| Deposits   | 863      |
| Borrowings   | 406      |
| <hr/>  |          |
| Total Interest Expense                                 | 1,269    |
| <hr/>  |          |
| Net Interest Income                                    | 1,090    |
| Provision for Loan Losses                              | 8        |
| <hr/>  |          |
| Net Interest Income After Provision<br>for Loan Losses | 1,082    |
| <hr/>  |          |
| Other Income   |          |
| Service fees   | 66       |
| Fee income   | 17       |
| Gain on sale of securities available for sale          | 92       |
| Other  | 74       |
| <hr/>  |          |
| Total Other Income                                     | 249      |
| <hr/>  |          |

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|                                |         |
|--------------------------------|---------|
| Other Expenses                 |         |
| Salaries and employee benefits | 556     |
| Occupancy expense              | 124     |
| Data processing costs          | 24      |
| Advertising                    | 52      |
| Equipment expense              | 87      |
| Electronic banking             | 19      |
| Directors' fees                | 29      |
| Mortgage fees and taxes        | 72      |
| Other expense                  | 328     |
|                                | -----   |
| Total Other Expenses           | 1,291   |
|                                | -----   |
| Income Before Income Taxes     | 40      |
|                                | -----   |
| Provision for Income Taxes     | 13      |
|                                | -----   |
| Net Income                     | \$ 27   |
|                                | =====   |
| Earnings per common share      | \$ 0.02 |
|                                | =====   |

See accompanying notes to consolidated financial statements

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FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Operations  
Six Months Ended June 30, 2009 and 2008 (unaudited)  
(Dollars in thousands, except per share data)

|                                     | 2009     |
|-------------------------------------|----------|
|                                     | -----    |
| Interest and Dividend Income        |          |
| Loans                               | \$ 3,664 |
| Securities - taxable                | 568      |
| Mortgage-backed securities          | 625      |
| Other                               | 3        |
|                                     | -----    |
| Total Interest and Dividend Income  | 4,860    |
|                                     | -----    |
| Interest expense                    |          |
| Deposits                            | 1,742    |
| Borrowings:                         |          |
| Short-term                          | 1        |
| Long-term                           | 830      |
|                                     | -----    |
| Total Interest Expense              | 2,573    |
|                                     | -----    |
| Net Interest Income                 | 2,287    |
| Provision for Loan Losses           | 14       |
|                                     | -----    |
| Net Interest Income After Provision |          |

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|   |         |
|---|---------|
|   | 2,273   |
|   |         |
| Other Income                                  |         |
| Service fees                                  | 115     |
| Fee income                                    | 28      |
| Gain on sale of securities available for sale | 92      |
| Other   | 148     |
|   |         |
| Total Other Income                            | 383     |
|   |         |
| Other Expenses                                |         |
| Salaries and employee benefits                | 1,249   |
| Occupancy expense                             | 249     |
| Data processing costs                         | 47      |
| Advertising                                   | 84      |
| Equipment expense                             | 177     |
| Electronic banking                            | 39      |
| Directors' fees                               | 57      |
| Mortgage fees and taxes                       | 116     |
| Other expense                                 | 519     |
|   |         |
| Total Other Expenses                          | 2,537   |
|   |         |
| Income (Loss) Before Income Taxes             | 119     |
| Provision (Benefit) for Income Taxes          | 41      |
|   |         |
| Net Income (Loss)                             | \$ 78   |
|   |         |
| Earnings (Loss) per common share              | \$ 0.05 |
|   |         |

See accompanying notes to consolidated financial statements

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### FSB COMMUNITY BANKSHARES, INC.

#### Consolidated Statements of Stockholders' Equity Six Months Ended June 30, 2009 and 2008 (unaudited) (Dollars in thousands)

|  | Common<br>Stock | Additional<br>Paid in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|--|-----------------|----------------------------------|----------------------|--|
|  |                 |                                  |                      |  |
| Balance - January 1, 2008  | \$ 179          | \$ 7,293                         | \$ 13,224            | \$ 118   |
| Comprehensive loss:  |                 |                                  |                      |  |
| Net loss   | -               | -                                | (96)                 | -  |
| Change in net unrealized gain<br>(loss) on securities<br>available for sale, net of<br>taxes | -               | -                                | -                    | (212)  |
| Total Comprehensive Loss   |                 |                                  |                      |  |

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|  |        |          |           |          |
|--|--------|----------|-----------|----------|
| ESOP shares committed to be released   |        |          |           |          |
| Balance - June 30, 2008  | -      | (4)      | -         | -        |
|  | -----  | -----    | -----     | -----    |
|  | \$ 179 | \$ 7,289 | \$ 13,128 | \$ (94)  |
|  | =====  | =====    | =====     | =====    |
| Balance - January 1, 2009  | \$ 179 | \$ 7,286 | \$ 13,249 | \$ (43)  |
| Comprehensive loss:  |        |          |           |          |
| Net income   | -      | -        | 78        | -        |
| Change in net unrealized loss on securities available for sale, net of reclassification adjustment and taxes | -      | -        | -         | (163)    |
| Total Comprehensive Loss   |        |          |           |          |
| ESOP shares committed to be released   |        |          |           |          |
|  | -      | (8)      | -         | -        |
|  | -----  | -----    | -----     | -----    |
| Balance - June 30, 2009  | \$ 179 | \$ 7,278 | \$ 13,327 | \$ (206) |
|  | =====  | =====    | =====     | =====    |

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, 2009 and 2008 (unaudited) (Dollars in thousands)

|  | 2009  |
|--|-------|
|  | ----- |
| Cash Flows From Operating Activities   |       |
| Net Income (Loss)  | \$ 78 |
| Adjustments to reconcile net income (loss) to net cash used by operating activities: |       |
| Net amortization of premiums and discounts on investments                            | 285   |
| Gain on sale of securities available for sale  | (92)  |
| Gain on sale of loans  | (45)  |
| Amortization of net deferred loan origination fees and costs                         | 11    |
| Depreciation and amortization  | 135   |
| Provision for loan losses  | 14    |
| Expense related to ESOP  | 10    |
| Deferred income tax benefit  | (78)  |
| Decrease (increase) in accrued interest receivable                                   | 63    |
| Decrease (increase) in other assets  | (503) |
| Decrease in other liabilities  | (92)  |
|  | ----- |
| Net Cash Used By Operating Activities  | (214) |
|  | ----- |
| Cash Flows From Investing Activities   |       |
| Purchase of securities held to maturity  | -     |

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|   |          |
|---|----------|
| Proceeds from maturities and calls of securities held to maturity   | -        |
| Proceeds from principal paydowns of securities held to maturity     | 406      |
| Purchase of securities available for sale                           | (57,644) |
| Proceeds from maturities and calls of securities available for sale | 30,485   |
| Proceeds from principal paydowns of securities available for sale   | 2,135    |
| Proceeds from sales of securities available for sale                | 5,355    |
| Net (increase) decrease in loans                                    | 4,403    |
| Proceeds from sales of loans  | 11,101   |
| Redemption (purchase) of Federal Home Loan Bank stock               | 284      |
| Purchase of premises and equipment                                  | (191)    |
|   | -----    |
| Net Cash Used By Investing Activities                               | (3,666)  |
|   | -----    |
| Cash Flows From Financing Activities                                |          |
| Net increase in deposits  | 14,506   |
| Net decrease in short-term borrowings                               | (3,850)  |
| Proceeds from long-term borrowings                                  | -        |
| Repayments on long-term borrowings                                  | (3,883)  |
| Net increase in advances from borrowed<br>for taxes and insurance   | 213      |
|   | -----    |
| Net Cash Provided By Financing Activities                           | 6,986    |
|   | -----    |
| Net Increase (Decrease) in Cash<br>and Cash Equivalents             | 3,106    |
| Cash and Cash Equivalents- Beginning                                | 3,173    |
|   | -----    |
| Cash and Cash Equivalents- Ending                                   | \$ 6,279 |
|   | =====    |

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### FSB COMMUNITY BANKSHARES, INC.

#### Consolidated Statements of Cash Flows, (Continued)

|                                      | 2009     |
|--------------------------------------|----------|
|                                      | -----    |
| Supplementary Cash Flows Information |          |
| Interest paid                        | \$ 2,587 |
|                                      | =====    |
| Income taxes paid                    | \$ 115   |
|                                      | =====    |

See accompanying notes to consolidated financial statements

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#### Notes to Consolidated Financial Statements

##### Note 1-Basis of Presentation

The accompanying unaudited consolidated financial statements of FSB Community

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Bankshares, Inc. and its wholly owned subsidiary (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the applicable instructions to Form 10-Q and Regulation S-X. 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 of Financial Condition and Results of Operations" should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2008, included in the Annual Report filed on Form 10-K with the Securities and Exchange Commission ("SEC") on March 31, 2009.

Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

The consolidated financial statements at June 30, 2009 and December 31, 2008 and for the three and six months ended June 30, 2009 and 2008 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 may have been reclassified, when necessary, to conform to current period presentation.

The Company has evaluated subsequent events through August 14, 2009 which is the date the consolidated financial statements were issued.

### Note 2-Fair Value Accounting and Measurement

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sale transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective reporting dates and have not been re-evaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each reporting date.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement 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.

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### Note 2-Fair Value Accounting and Measurement (Continued)

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest

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priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows at June 30, 2009 and at December 31, 2008:

| (Dollars in Thousands)        | Total<br>-----     | Level 1<br>----- | Level 2<br>-----   |
|-------------------------------|--------------------|------------------|--------------------|
| June 30, 2009                 |                    |                  |                    |
| Securities available for sale | \$ 63,154<br>===== | \$ 5<br>=====    | \$ 63,149<br>===== |
| December 31, 2008             |                    |                  |                    |
| Securities available for sale | \$ 43,925<br>===== | \$ 6<br>=====    | \$ 43,919<br>===== |

SFAS No. 107, Disclosure about Fair Value of Financial Instruments ("SFAS 107"), requires disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the defined fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. SFAS 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments at June 30, 2009 and December 31, 2008:

### Cash, Due from Banks, and Interest-Bearing Demand Deposits

The carrying amounts of these assets approximate their fair values.

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### Note 2-Fair Value Accounting and Measurement (Continued)

#### Investment Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) are used to support fair values of certain Level 3 investments. The Company had no Level 3 investment securities at June 30, 2009 or December 31, 2008.

#### Investment in FHLB Stock

The carrying value of FHLB stock approximates its fair value based on the redemption provisions of the FHLB stock.

#### Loans

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

#### Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and payable approximates fair value.

#### Deposits

The fair values disclosed for demand deposits (e.g., NOW accounts, non-interest checking, regular savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts for variable-rate certificates of deposit approximate their fair values at the reporting date. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

#### Borrowings

The fair values of FHLB long-term borrowings are estimated using discounted cash flow analyses, based on the quoted rates for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. The carrying amount of short-term borrowings approximate their fair value.

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### Off-Balance Sheet Instruments

The fair values for off-balance sheet financial instruments (lending commitments and lines of credit) are estimated using the fees currently charged to enter into similar agreements, taking into account market interest rates, the remaining terms and present credit worthiness of the counterparties.

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### Note 2 - Fair Value Accounting and Measurement (continued)

The carrying amounts and estimated fair values of the Company's financial instruments at June 30, 2009 and December 31, 2008 are as follows:

|                                       | June 30, 2009      |               |               |
|---------------------------------------|--------------------|---------------|---------------|
|                                       | Carrying<br>Amount | Fair<br>Value | Carry<br>Amou |
|                                       | (In Thousands)     |               |               |
| <b>Financial assets:</b>              |                    |               |               |
| Cash and due from banks               | \$ 5,194           | \$ 5,194      | \$ 2,         |
| Interest bearing demand deposits      | 1,085              | 1,085         | 1,            |
| Securities available for sale         | 63,154             | 63,154        | 43,           |
| Securities held to maturity           | 6,880              | 6,915         | 7,            |
| FHLB stock                            | 2,028              | 2,028         | 2,            |
| Loans, net                            | 120,229            | 122,100       | 135,          |
| Accrued interest receivable           | 969                | 969           | 1,            |
| <b>Financial liabilities:</b>         |                    |               |               |
| Deposits                              | 142,028            | 143,747       | 127,          |
| Short-term borrowings                 | -                  | -             | 3,            |
| Long-term borrowings                  | 37,748             | 37,851        | 41,           |
| Accrued interest payable              | 139                | 139           |               |
| <b>Off-balance sheet instruments:</b> |                    |               |               |
| Commitments to extend credit          | -                  | -             |               |

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### Note 3 - Securities

The amortized cost and estimated fair value of securities with gross unrealized gains and losses at June 30, 2009 and December 31, 2008 are as follows:

|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gro<br>Unrea<br>Los |
|--|-------------------|------------------------------|---------------------|
|--|-------------------|------------------------------|---------------------|

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(In Thousands)

|  |    |        |        |
|--|----|--------|--------|
| June 30 2009:                            |    |        |        |
| Available for Sale:                      |    |        |        |
| Equity securities                        | \$ | 9      | \$ -   |
| U.S. Government obligations              |    | 42,510 | 38     |
| Mortgage-backed securities - residential |    | 20,952 | 244    |
|  |    | -----  | -----  |
|  | \$ | 63,471 | \$ 282 |
|  |    | =====  | =====  |
| Held to Maturity:                        |    |        |        |
| Mortgage-backed securities - residential | \$ | 6,880  | \$ 49  |
|  |    | -----  | -----  |
|  |    | =====  | =====  |
| December 31, 2008:                       |    |        |        |
| Available for Sale:                      |    |        |        |
| Equity securities                        | \$ | 9      | \$ -   |
| U.S. Government obligations              |    | 22,196 | 82     |
| Mortgage-backed securities - residential |    | 21,785 | 38     |
|  |    | -----  | -----  |
|  | \$ | 43,990 | \$ 120 |
|  |    | =====  | =====  |
| Held to Maturity:                        |    |        |        |
| Mortgage-backed securities - residential | \$ | 7,289  | \$ -   |
|  |    | -----  | -----  |
|  |    | =====  | =====  |

Mortgage-backed securities consist of securities issued by FNMA, FHLMC, GNMA, and FFCB collateralized by residential mortgages.

The amortized cost and estimated fair value by contractual maturity of debt securities at June 30, 2009 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

|  | Available for Sale |                      | Held t         |
|--|--------------------|----------------------|----------------|
|  | Amortized Cost     | Estimated Fair Value | Amortized Cost |
|  | (In Thousands)     |                      | (In Th         |
| Due in one year or less                  | \$ -               | \$ -                 | \$ -           |
| Due after one year through five years    | 2,505              | 2,505                | -              |
| Due after five years through ten years   | 12,559             | 12,470               | -              |
| Due after ten years                      | 27,446             | 26,980               | -              |
| Mortgage-backed securities - residential | 20,952             | 21,194               | 6,880          |
|  | -----              | -----                | -----          |
|  | \$ 63,462          | \$ 63,149            | \$ 6,880       |
|  | =====              | =====                | =====          |

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There was a \$92,000 gain on sale of available for sale securities in the first six months of 2009. There were no gross realized gains or losses recognized on sales of securities available for sale for the six months ended June 30, 2008.

No securities were pledged to secure public deposits or for any other purpose required or permitted by law at June 30, 2009 and December 31, 2008.

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2009 and December 31, 2008:

|   | Less than 12 Months |                         | 12 Months or More |                         |
|---|---------------------|-------------------------|-------------------|-------------------------|
|   | Fair Value          | Gross Unrealized Losses | Fair Value        | Gross Unrealized Losses |
|   | (In Thousands)      |                         |                   |                         |
| <b>June 30, 2009:</b>                     |                     |                         |                   |                         |
| Equity securities                         | \$ 9                | \$ 4                    | \$ -              | \$ -                    |
| U.S. Government obligations               | 23,958              | 593                     | -                 | -                       |
| mortgaged-backed securities - residential | 4,143               | 4                       | 1,110             | 12                      |
|   | \$ 28,110           | \$ 601                  | \$ 1,110          | \$ 12                   |
|   | \$ 28,110           | \$ 601                  | \$ 1,110          | \$ 12                   |
| <b>December 31, 2008:</b>                 |                     |                         |                   |                         |
| Equity securities                         | \$ 6                | \$ 3                    | \$ -              | \$ -                    |
| U.S. Government obligations               | 3,354               | 49                      | -                 | -                       |
| mortgaged-backed securities - residential | 22,556              | 268                     | 1,335             | 63                      |
|   | \$ 25,916           | \$ 320                  | \$ 1,335          | \$ 63                   |
|   | \$ 25,916           | \$ 320                  | \$ 1,335          | \$ 63                   |

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) the financial condition of the issuer (and guarantor, if any) and adverse conditions specifically related to the security, industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of a security by a rating agency, and (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies.

At June 30, 2009, thirty-four debt securities have been in a continuous unrealized loss position for less than twelve months. Two debt securities have been in a continuous unrealized loss position for more than twelve months. As management believes the Company does not intend to sell and will not be required

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to sell these securities prior to recovery or maturity, no declines are deemed to be other than temporary.

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### Note 4 - Federal Home Loan Bank of New York Stock

Federal Home Loan Bank of New York ("FHLB") stock represents the required investment in the common stock of a correspondent bank.

Management evaluates the FHLB stock for impairment in accordance with Statement of Position (SOP) 01-6, Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others. Management's determination of whether this investment is impaired is based on their assessment of the ultimate recoverability of its cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the FHLB stock as of June 30, 2009.

### Note 5 - Comprehensive 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 stockholders' equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive loss.

The components of other comprehensive loss and related tax effects for the three and six months ended June 30, 2009 and 2008 are as follows:

|   | For the Three Months Ended<br>June 30, |          | For the Six<br>Months Ended<br>June 30, |
|---|--|----------|---|
|   | 2009                                   | 2008     | 2009                                    |
|   | ----                                   | ----     | ----                                    |
|   | (In Thousands)                         |          | (In<br>Thousands)                       |
| Unrealized holding loss on available<br>for sale securities             | \$ (780)                               | \$ (317) | \$ (339)                                |
| Reclassification adjustment for realized<br>gain included in net income | (92)                                   | -        | (92)                                    |
|   | (688)                                  | (317)    | (247)                                   |
| Net Unrealized Loss   |  |          |   |
| Tax effect  | (234)                                  | (109)    | (84)                                    |
|   | \$ (454)                               | \$ (208) | \$ (163)                                |
| Net of tax amount   | \$ (454)                               | \$ (208) | \$ (163)                                |

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### Note 6 - Earnings (Loss) Per Common Share

Earnings (loss) per common share are calculated by dividing the net income (loss) by the weighted-average number of common shares outstanding during the period. The Company has not granted any restricted stock awards or stock options and, during the three and six months ended June 30, 2009 and 2008, had no potentially dilutive common stock equivalents. Unallocated common shares held by the ESOP are not included in the weighted-average number of common shares outstanding for purposes of calculating earnings (loss) per common share until

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### Note 6 - Earnings (Loss) Per Common Share (continued)

they are committed to be released. The weighted average common shares outstanding were 1,723,775 for the three months ended June 30, 2009 and 1,723,340 for the six months ended June 30, 2009 and 1,718,526 for the three and six months ended June 30, 2008.

### Note 7 - Recent Accounting Pronouncements

#### FSP FAS 157-4

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). FASB Statement 157, Fair Value Measurements, defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP FAS 157-4 provides additional guidance on determining when the volume and level of activity for the asset or liability has significantly decreased. The FSP also includes guidance on identifying circumstances when a transaction may not be considered orderly.

FSP FAS 157-4 provides a list of factors that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed and significant adjustments to the related prices may be necessary to estimate fair value in accordance with Statement 157.

This FSP clarifies that when there has been a significant decrease in the volume and level of activity for the asset or liability, some transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly. The FSP provides a list of circumstances that may indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this FSP by the Company, effective April 1, 2009, did not have a material impact on the results of operations or consolidated financial position.

#### FSP FAS 115-2 and FAS 124-2

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In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing an other-than-temporary impairment. This change does not affect the need to forecast recovery of the value of the security through either cash flows or market price.

In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, FSP FAS 115-2 and FAS 124-2 changes the presentation and amount of the other-than-temporary impairment recognized in the income statement.

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### Note 7 - Recent Accounting Pronouncements (continued)

The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this FSP by the Company, effective April 1, 2009, did not have a material impact on amounts reported in the Company's consolidated financial statements.

### FSP FAS 107-1 and APB 28-1

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this FSP by the Company, effective June 30, 2009, did not have a material impact on amounts reported in the Company's consolidated financial statements.

### FASB Statement No. 166

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140. This statement prescribes the information that a reporting entity must provide in its financial

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reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement in transferred financial assets. Specifically, among other aspects, SFAS 166 amends Statement of Financial Standard No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, or SFAS 140, by removing the concept of a qualifying special-purpose entity from SFAS 140 and removes the exception from applying FIN 46(R) to variable interest entities that are qualifying special-purpose entities. It also modifies the financial-components approach used in SFAS 140. SFAS 166 is effective for fiscal years beginning after November 15, 2009. The Company has not determined the effect that the adoption of SFAS 166 will have on its consolidated financial position or results of operations.

FASB Statement No. 167

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R). This statement amends FASB Interpretation No. 46, Consolidation of Variable Interest Entities (revised December, 2003) -- an interpretation of ARB No. 51, or FIN 46(R), to require an enterprise to determine whether it's variable interest or interests give it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the enterprise that has both (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. SFAS 167 also amends FIN 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. SFAS 167 is effective for

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Note 7 - Recent Accounting Pronouncements

fiscal years beginning after November 15, 2009. The Company has not determined the effect that the adoption of SFAS 166 will have on its consolidated financial position or results of operations.

FASB Statement No. 168

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162. SFAS 168 replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, to establish the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. The Company does not expect the adoption of this standard to have an impact on its consolidated financial position or results of operations.

FASB Statement No. 165

In May 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events, which establishes principles and requirements for subsequent events. In particular, this Statement defines (i) the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet

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date in its financial statements, and (iii) the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. The adoption of SFAS No. 165 did not have a material effect on the Company's consolidated financial condition, results of operations or cash flows.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### General

Throughout the Management's Discussion and Analysis ("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, 2009, FSB Community Bankshares, MHC the Company's mutual holding company parent, held 946,050 shares, or 53.0%, of the Company's 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

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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 Annual Report filed on Form 10-K with the Securities and Exchange Commission on March 31, 2009. 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. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions and estimates underlying those amounts, management has identified the determination of the allowance for loan losses and the evaluation of investment securities for other than temporary impairment to be the accounting areas that require the most subjective and complex judgments, and as such could be the most subject to revision as new

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information becomes available.

Allowance for Loan Losses. The allowance for loan losses is established as losses are estimated to have occurred in the loan portfolio. The allowance for loan losses is recorded through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is generally established when the collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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 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.

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### Critical Accounting Policies (Continued)

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.

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

Other than temporary impairment. When the fair value of a held to maturity or available for sale security is less than its amortized cost basis, an assessment is made at the balance sheet date as to whether other-than-temporary impairment

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(OTTI) is present.

The Company considers numerous factors when determining whether a potential OTTI exists and the period over which the debt security is expected to recover. The principal factors considered are (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) the financial condition of the issuer (and guarantor, if any) and adverse conditions specifically related to the security, industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of a security by a rating agency, and (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies.

For debt securities, OTTI is considered to have occurred if (1) the Company intends to sell the security, (2) it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, or (3) if the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. In determining the present value of expected cash flows, the Company discounts the expected cash flows at the effective interest rate implicit in the security at the date of acquisition or, for debt securities that are beneficial interests in securitized financial assets, at the current rate used to accrete the beneficial interest. In estimating cash flows expected to be collected, the Company uses available information with respect to security prepayment speeds, expected deferral and default rates and severity, whether subordinated interests, if any, are capable of absorbing estimated losses and the value of any underlying collateral.

In determining whether OTTI has occurred for equity securities, the Company considers the applicable factors described above and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

### Comparison of Financial Condition at June 30, 2009 and December 31, 2008

**Total Assets.** Total assets increased by \$6.6 million, or 3.4%, to \$202.7 million at June 30, 2009 from \$196.1 million at December 31, 2008. The increase in total assets primarily reflects increases in securities classified as available for sale and cash and cash equivalents, partially offset by decreases in net loans receivable.

Cash and cash equivalents increased by \$3.1 million, or 97.9% to \$6.3 million at June 30, 2009 from \$3.2 million at December 31, 2008.

Total securities increased by \$18.8 million, or 36.7%, to \$70.0 million at June 30, 2009 from \$51.2 million at December 31, 2008. Securities classified as available for sale increased \$19.2 million to \$63.1 million at June 30, 2009 from \$43.9 million at December 31, 2008. The \$19.2 million increase was attributable to the purchase of \$51.0 million of U.S. government agency securities, purchases of \$6.6 million of mortgage-backed securities, partially offset by maturities of \$30.4 million of U.S. government agency securities classified as available for sale, the sale of \$5.3 million of mortgage-backed securities classified as available for sale, \$2.1 million in principal repayments received, and a \$247,000 decrease in the fair value of securities available for sale. Securities classified as held to maturity decreased \$409,000

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to \$6.9 million at June 30, 2009 from \$7.3 million at December 31, 2008 primarily as a result of principal repayments received from mortgage-backed securities. All securities purchased in 2009 have been classified as securities available for sale to provide a portfolio of marketable securities for liquidity as an alternative to borrowings. The Company has reviewed its investment securities portfolio at June 30, 2009, and has determined that no other-than-temporary impairment exists in the portfolio.

Investment in FHLB of New York stock decreased by \$284,000, or 12.3%, to \$2.0 million at June 30, 2009, from \$2.3 million at December 31, 2008 due to stock redemptions. The FHLB of New York requires members to purchase and redeem stock based on the level of borrowings.

Net loans receivable decreased by \$15.5 million, or 11.4%, to \$120.2 million at June 30, 2009 from \$135.7 million at December 31, 2008. The decrease in loans receivable was primarily the result of sales of fixed rate residential mortgages totaling \$11.1 million in the first six months of 2009 and normal amortization. Total loans sold and serviced as of June 30, 2009 totaled \$15.2 million compared to \$5.1 million as of December 31, 2008. Management made the decision to sell long term, fixed rate loans in this historically low interest rate environment. The Bank sold these loans at gains which are recorded in other income, and will realize servicing income on these loans as long as these loans are outstanding. Management believes that selling these loans was a prudent interest rate decision in order to position the consolidated balance sheet for higher interest rates in the future. The Company continues to execute its business plan of making high quality loans to existing customers and new customers in our market area with \$14.2 million of residential mortgage loan originations in the first six months of 2009. We may experience further declines in our total residential mortgages loan portfolio with additional mortgage loan sales based on the current economic conditions and our desired interest rate sensitivity position. As the interest rate market changes throughout the remainder of 2009, we intend to continue to sell a portion of our existing fixed-rate residential mortgage loans on a servicing retained basis, resulting in additional loan servicing income.

The Company has never been involved with, and has no direct exposure to, sub-prime lending activities. Credit quality continues to be the highest priority when underwriting loans. Subjective judgments about a borrower's ability to repay and the value of any underlying collateral are made prior to approving a loan.

We believe our stringent underwriting standards have directly resulted in our low level of non-accruing loans.

Deposits and Borrowings. Total deposits increased by \$14.5 million, or 11.4%, to \$142.0 million at June 30, 2009 from \$127.5 million at December 31, 2008. Certificates of deposit, including IRAs, increased by \$6.9 million. Transaction accounts, including checking, NOW, money market and savings accounts, increased by \$7.6 million. The net deposit growth was attributable to the Irondequoit branch growth of \$5.9 million, Penfield branch growth of \$5.6 million and Fairport branch growth of \$3.0 million. We continue to promote core customer relationship banking, with bonus rates and incentive offerings.

Combined short and long term borrowings decreased by \$7.8 million, or 17.0%, to \$37.7 million at June 30, 2009 from \$45.5 million on December 31, 2008. The decrease in borrowings included \$3.9 million in short term borrowings and \$3.9 million in long term borrowings. We repaid these borrowings in the first half of 2009 using increased deposits.

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Stockholders' Equity. Total stockholders' equity decreased by \$75,000 or 0.4%, to \$20.0 million at June 30, 2009 from \$20.0 million at December 31, 2008. The decrease resulted principally from a \$163,000 increase in accumulated other comprehensive loss, partially offset by net income of \$78,000 for the six months ended June 30, 2009.

Non-Performing Assets. At June 30, 2009, the Company had \$460,000 in loans classified as non-performing assets compared to \$146,000 in loans classified as non-performing at December 31, 2008. At the time of this filing, both of the borrowers have accepted purchase offers agreed to by all parties including the Bank. At June 30, 2009 management has evaluated the Bank's loan loss reserve and believes it is adequately funded based on the quality of the current loan portfolio.

At June 30, 2009, there were no loans or other assets that are not disclosed 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 tables set 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, where applicable, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income. Yields have been annualized.

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|                                | For the Three Months Ended June 30, |                                |                |                    |                                |
|--------------------------------|-------------------------------------|--------------------------------|----------------|--------------------|--------------------------------|
|                                | 2009                                |                                |                | 2008               |                                |
|                                | Average<br>Balance                  | Interest<br>Income/<br>Expense | Yield/<br>Cost | Average<br>Balance | Interest<br>Income/<br>Expense |
| (Dollars in thousands)         |                                     |                                |                |                    |                                |
| Interest-earning assets:       |                                     |                                |                |                    |                                |
| Loans.....                     | \$ 124,501                          | \$ 1,757                       | 5.64%          | \$ 126,995         | \$ 1,844                       |
| Securities.....                | 35,215                              | 301                            | 3.42           | 31,378             | 37                             |
| Mortgage-backed securities.... | 28,800                              | 299                            | 4.15           | 26,757             | 30                             |
| Other.....                     | 7,780                               | 2                              | 0.10           | 3,158              | 1                              |
| Total interest-earning assets  | 196,296                             | 2,359                          | 4.81           | 188,288            | 2,532                          |
| Non-interest-earning assets... | 4,459                               |                                |                | 4,838              |                                |
| Total assets.....              | \$ 200,755                          |                                |                | \$ 193,126         |                                |
| Interest-bearing liabilities:  |                                     |                                |                |                    |                                |
| NOW accounts.....              | 8,198                               | \$ 14                          | 0.68%          | 6,742              | \$ 1                           |
| Passbook savings.....          | 14,108                              | 24                             | 0.68           | 14,241             | 3                              |
| Money market savings.....      | 20,337                              | 85                             | 1.67           | 11,203             | 5                              |
| Individual retirement accounts | 17,701                              | 166                            | 3.75           | 16,275             | 17                             |

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|  |            |          |       |            |          |
|--|------------|----------|-------|------------|----------|
| Certificates of deposit.....   | 75,525     | 574      | 3.04  | 76,366     | 78       |
| Borrowings.....  | 37,938     | 406      | 4.28  | 42,077     | 43       |
|  | -----      | -----    |       | -----      | -----    |
| Total interest-bearing liabilities.....                                      | 173,807    | 1,269    | 2.92  | 166,904    | 1,49     |
|  | -----      | -----    | ----- | -----      | -----    |
| Non-interest-bearing liabilities:  |            |          |       |            |          |
| Demand deposits.....   | 3,552      |          |       | 3,303      |          |
| Other.....   | 3,003      |          |       | 2,774      |          |
|  | -----      |          |       | -----      |          |
| Total liabilities.....   | 180,362    |          |       | 172,981    |          |
| Stockholders' equity.....  | 20,393     |          |       | 20,145     |          |
|  | -----      |          |       | -----      |          |
| Total liabilities and stockholders' equity.....                              | \$ 200,755 |          |       | \$ 193,126 |          |
|  | =====      |          |       | =====      |          |
| Net interest income.....   |            | \$ 1,090 |       |            | \$ 1,030 |
|  |            | =====    |       |            | =====    |
| Interest rate spread (1).....  |            |          | 1.89% |            |          |
|  |            |          | ===== |            |          |
| Net interest-earning assets (2)  | \$ 22,489  |          |       | 21,384     |          |
|  | =====      |          |       | =====      |          |
| Net interest margin (3).....   |            | 2.22%    |       |            | 2.22%    |
|  |            | =====    |       |            | =====    |
| Average interest-earning assets to average interest-bearing liabilities..... | 113%       |          |       | 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, |                         |            |                 |                         |
|--------------------------------|-----------------------------------|-------------------------|------------|-----------------|-------------------------|
|                                | 2009                              |                         |            | 2008            |                         |
|                                | Average Balance                   | Interest Income/Expense | Yield/Cost | Average Balance | Interest Income/Expense |
|                                | -----                             | -----                   | -----      | -----           | -----                   |
|                                | (Dollars in thousands)            |                         |            |                 |                         |
| Interest-earning assets:       |                                   |                         |            |                 |                         |
| Loans.....                     | \$ 128,867                        | \$ 3,664                | 5.69%      | \$ 124,979      | \$ 3,664                |
| Securities.....                | 29,901                            | 568                     | 3.81       | 28,921          | 680                     |
| Mortgage-backed securities.... | 28,852                            | 625                     | 4.33       | 22,213          | 500                     |
| Other.....                     | 5,993                             | 3                       | 0.10       | 6,062           | 90                      |
|                                | -----                             | -----                   | -----      | -----           | -----                   |
| Total interest-earning assets  | 193,613                           | 4,860                   | 5.02%      | 182,175         | 4,940                   |
|                                | -----                             | -----                   | -----      | -----           | -----                   |
| Non-interest-earning assets... | 4,456                             |                         |            | 4,887           |                         |

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|  |                              |          |       |                              |         |
|--|------------------------------|----------|-------|------------------------------|---------|
| Total assets.....  | -----<br>\$ 198,069<br>===== |          |       | -----<br>\$ 187,062<br>===== |         |
| Interest-bearing liabilities:  |                              |          |       |                              |         |
| NOW accounts.....  | \$ 7,859                     | \$ 28    | 0.71  | \$ 6,206                     | \$ 2    |
| Passbook savings.....  | 13,789                       | 50       | 0.73  | 13,851                       | 7       |
| Money market savings.....  | 18,858                       | 180      | 1.91  | 11,027                       | 12      |
| Individual retirement accounts   | 17,347                       | 333      | 3.84  | 16,199                       | 36      |
| Certificates of deposit.....   | 74,299                       | 1,151    | 3.10  | 75,223                       | 1,62    |
| Borrowings.....  | 39,352                       | 831      | 4.22  | 38,720                       | 80      |
|  | -----                        | -----    |       | -----                        | -----   |
| Total interest-bearing liabilities.....                                      | 171,504                      | 2,573    | 3.00% | 161,226                      | 3,01    |
| Non-interest-bearing liabilities:  |                              |          |       |                              |         |
| Demand deposits.....   | 3,448                        |          |       | 3,193                        |         |
| Other.....   | 2,787                        |          |       | 2,515                        |         |
|  | -----                        |          |       | -----                        |         |
| Total liabilities.....   | 177,779                      |          |       | 166,934                      |         |
| Stockholders' equity.....  | 20,290                       |          |       | 20,128                       |         |
|  | -----                        |          |       | -----                        |         |
| Total liabilities and stockholders' equity.....                              | \$ 198,069                   |          |       | \$ 187,062                   |         |
|  | =====                        |          |       | =====                        |         |
| Net interest income.....   |                              | \$ 2,287 |       |                              | \$ 1,92 |
|  |                              | =====    |       |                              | =====   |
| Interest rate spread (1).....  |                              |          | 2.02% |                              |         |
|  |                              |          | ===== |                              |         |
| Net interest-earning assets (2)  | \$ 22,109                    |          |       | 20,949                       |         |
|  | =====                        |          |       | =====                        |         |
| Net interest margin (3).....   |                              | 2.36%    |       |                              | 2.      |
|  |                              | =====    |       |                              | =====   |
| Average interest-earning assets to average interest-bearing liabilities..... |                              | 113%     |       | 113%                         |         |
|  | =====                        |          |       | =====                        |         |

Comparison of Operating Results for the Three Months Ended June 30, 2009 and June 30, 2008

General. We had net income of \$27,000 for the three months ended June 30, 2009 compared to net income of \$10,000 for the three months ended June 30, 2008. The increase of \$17,000 in net income for the second quarter of 2009 compared to the second quarter of 2008 resulted primarily from an increase in net interest income of \$51,000, an increase in other income of \$118,000, partially offset by an increase in provision for loan losses of \$2,000, an increase in other expenses of \$141,000, and an increase in income tax expense of \$9,000. The increase in net interest income was the result of the Company's ability to reduce the deposit costs in a low interest rate environment at a quicker pace than the decrease in income of the interest earning assets, nominally increasing the net interest margin to 2.22% in the second quarter of 2009 compared to a 2.21% net interest margin in the second quarter of 2008. During the second quarter, the Federal Deposit Insurance Corporation (FDIC) imposed a five point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. As a result of this special assessment, Fairport Savings Bank accrued an amount of \$91,000 payable to the FDIC on September 30, 2009. In an effort to offset the effect of the FDIC special assessment on second quarter earnings, the Bank completed the sale of \$5.3 million in available for sale mortgage-backed securities recording a pre-tax gain of approximately \$92,000 in May 2009.

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Interest and Dividend Income. Interest and dividend income decreased by \$176,000 or 6.9%, to \$2.4 million for the three months ended June 30, 2009 from \$2.5 million for the three months ended June 30, 2008. The decrease in interest and dividend income resulted from a \$90,000 or 4.9% decrease in interest income

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Comparison of Operating Results for the Three Months Ended June 30, 2009 and June 30, 2008 (continued)

from loans, a \$69,000 or 18.6% decrease in interest income from securities, a \$3,000 or 1.0% decrease in interest income from mortgage-backed securities, and a \$14,000 or 87.5% decrease in other interest income, primarily interest earning demand accounts. Average interest-earning assets increased by \$8.0 million, or 4.3%, to \$196.3 million for the three months ended June 30, 2009 from \$188.3 million for the three months ended June 30, 2008. The yield on interest-earning assets decreased by 58 basis points to 4.81% for the three months ended June 30, 2009 compared to 5.39% for the three months ended June 30, 2008, reflecting a yield decrease in all interest earning asset categories as a result of a decrease in interest rates by the Federal Reserve from a Federal Fund rate of 2.00% at June 30, 2008 to a targeted Federal Fund rate range of 0.00% - 0.25% at June 30, 2009.

Interest Expense. Interest expense decreased \$227,000 or 15.2%, to \$1.3 million for the three months ended June 30, 2009 from \$1.5 million for the three months ended June 30, 2008. The decrease in interest expense resulted from lower average rates paid on these liabilities despite an increase in the aggregate average balance. The average balance of interest-bearing liabilities increased \$6.9 million, or 4.1%, to \$173.8 million for the three months ended June 30, 2009 compared to \$166.9 million for the three months ended June 30, 2008. The average cost of interest-bearing liabilities decreased by 67 basis points to 2.92% for the three months ended June 30, 2009 from 3.59% for the three months ended June 30, 2008. The average cost of deposit accounts decreased by 87 basis points to 2.54% for the three months ended June 30, 2009 compared to 3.41% for the three months ended June 30, 2008. The average cost of borrowings increased by 18 basis points to 4.28% for the three months ended June 30, 2009 compared to 4.10% for the three months ended June 30, 2008. The decrease in interest expense reflects the Bank's management of lower deposit costs in a historically low interest rate environment.

At June 30, 2009, we had \$10.8 million of certificates of deposit, including IRAs that will mature during the third quarter of 2009 with a weighted average cost of 2.65%. Based on current market rates, if these funds remain with Fairport Savings Bank with similar maturities, the rates paid on these deposits will decrease.

Net Interest Income. Net interest income increased \$51,000 or 4.9%, to \$1.1 million for the three months ended June 30, 2009 from \$1.0 million for the three months ended June 30, 2008. The increase in net interest income was due primarily to an increase in interest earning assets, and decreasing deposit and borrowing costs at a faster rate than loan and investment securities. The Company's net interest margin increased 1 basis points to 2.22% for the three months ended June 30, 2009 from 2.21% for the three months ended June 30, 2008.

Provision for Loan Losses. Based on management's evaluation of the factors that determine the level of the allowance for loan losses, we recorded \$8,000 in provision for loan losses for the three month period ended June 30, 2009 compared to a \$6,000 provision for loan losses for the three months ended June 30, 2008. The allowance for loan losses as of June 30, 2009 was \$357,000 or 0.30% of total loans, compared to \$327,000 or 0.25% of total loans as of June

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30, 2008. We ended the quarter with \$460,000 in non-accrual loans as of June 30, 2009 compared to \$36,000 in non-accrual loans as of June 30, 2008. We had no foreclosed real estate at June 30, 2009 or 2008.

Other Income. Total other income increased \$118,000 or 90.1%, to \$249,000 for the three months ended June 30, 2009 compared to \$131,000 for the three months ended June 30, 2008. The primary increase was due to the Bank completing a sale of \$5.3 million mortgage-backed securities recording a pre-tax gain on sale of securities of \$92,000 in May 2009. In the three months ended June 30, 2009, there was also an increase of \$35,000 in other income mainly due to mortgage fees and gain on sale of mortgage loans in the secondary market. There was also a \$13,000 increase in service fee income in deposit account service charge fees, partially offset by a decrease of \$22,000 in commissions from Oakleaf Services insurance/annuity and security sales.

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Comparison of Operating Results for the Three Months Ended June 30, 2009 and June 30, 2008 (continued)

Other Expenses. Other expenses increased \$141,000, or 12.3%, to \$1.3 million for the three months ended June 30, 2009 compared to \$1.1 million for the three months ended June 30, 2008. The increase was primarily the result of an increase in other expense of \$146,000, mainly due to an increase in FDIC insurance expense of \$156,000 in the three months end June 30, 2009 to \$159,000 compared to \$3,000 for the three months ended June 30, 2008. During the second quarter, the FDIC imposed a five basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. As a result of this assessment, Fairport Savings Bank accrued an amount of \$91,000 for the quarter ended June 30, 2009 payable to the FDIC on September 30, 2009. In addition to the one-time special assessment, the Bank's quarterly FDIC assessment rate increased, resulting in additional FDIC premium expense for the quarter of \$68,000. Occupancy expense increased by \$10,000 due to additional branch maintenance expense in the second quarter of 2009. The increase was partially offset by a decrease in advertising expense of \$36,000.

Income Tax Expense. We had pre-tax income of \$40,000 for the three months ended June 30, 2009 versus a pre-tax income of \$14,000 for the three months ended June 30, 2008, which resulted in a \$13,000 tax expense for the three months ended June 30, 2009, versus a \$4,000 tax expense for the three months ended June 30, 2008, a change of \$9,000. The effective tax rate was 32.5% for the three months ended June 30, 2009 compared to 28.6 % for the three months ended June 30, 2008.

Comparison of Operating Results for the Six Months Ended June 30, 2009 and June 30, 2008

General. We had net income of \$78,000 for the six months ended June 30, 2009 compared to a net loss of \$96,000 for the six months ended June 30, 2008. The \$174,000 improvement was attributable to an increase in net interest income of \$362,000, an increase in other income of \$158,000, partially offset by an increase in other expenses of \$243,000, an \$8,000 increase in the provision for loan losses, and an increase in income tax of \$95,000. The net interest income improvement was generated by an increase in higher yielding interest-earning assets and the Company's ability to reduce the deposit costs in a low interest rate environment, all of which positively impacted the net interest margin in the first six months of 2009 compared to the first six months of 2008. Decreased short term interest rates have provided an opportunity to lower our costs on deposits at a faster rate than our loans and investments, providing positive results in our net interest margin and profitability year over year. The net interest margin increased by 25 basis points to 2.36% for the six months ended

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June 30, 2009 from 2.11% for the six months ended June 30, 2008.

**Interest and Dividend Income.** Interest and dividend income decreased by \$81,000, or 1.6% to \$4.9 million for the six months ended June 30, 2009 from \$4.9 million for the six months ended June 30, 2008. The \$81,000 decrease in interest and dividend income resulted primarily from a \$121,000, or 24.0%, increase in interest income from mortgage-backed securities, offset by a \$115,000, or 16.8%, decrease in interest income from securities, and an \$87,000, or 96.7% decrease in interest income from other sources. Average interest-earning assets increased by \$11.4 million, or 6.3%, to \$193.6 million for the six months ended June 30, 2009 from \$182.2 million for the six months ended June 30, 2008. The yield on interest earning assets decreased by 40 basis points to 5.02% for the six months ended June 30, 2009 compared to 5.42% for the six months ended June 30, 2008, reflecting decreases in interest yields in all asset categories due to the 175 basis point drop in interest rates by the Federal Reserve since June 30, 2008.

**Interest Expense.** Interest expense decreased \$443,000, or 14.7%, to \$2.6 million for the six months ended June 30, 2009 from \$3.0 million for the six months ended June 30, 2008. The decrease in interest expense resulted from lower average rates paid on deposit liabilities despite an increase in the aggregate average balance. Average balances in interest bearing liabilities increased

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Comparison of Operating Results for the Six Months Ended June 30, 2009 and June 30, 2008 (continued)

\$10.3 million, or 6.4%, to \$171.5 million for the six months ended June 30, 2009 compared to \$161.2 million for the six months ended June 30, 2008. The average cost of interest-bearing liabilities decreased by 74 basis points to 3.00% for the six months ended June 30, 2009 from 3.74% for the six months ended June 30, 2008. The average cost of deposit accounts decreased by 96 basis points to 2.64% for the six months ended June 30, 2009 compared to 3.60% for the six months ended June 30, 2008. The average cost of borrowings increased by 4 basis points to 4.22% for the six months ended June 30, 2009 compared to 4.18% for the six months ended June 30, 2008. The decrease in interest expense reflects a lower cost of funds in deposits in a lower interest rate environment.

**Net Interest Income.** Net interest income increased \$362,000, or 18.8%, to \$2.3 million for the six months ended June 30, 2009 from \$1.9 million for the six months ended June 30, 2008. The increase in net interest income was due primarily to a decrease in the average cost of our interest-bearing liabilities of 74 basis points, while the average yield on our interest-earning assets decreased by 40 basis points. Our net interest margin increased by 25 basis points to 2.36% for the six months ended June 30, 2009 from 2.11% for the six months ended June 30, 2008. The increase in net interest margin was also attributable to the effect of a decrease of 175 basis points in short term rates by the Federal Reserve Bank from June 30, 2008 to June 30, 2009.

**Provision for Loan Losses.** Based on management's evaluation of the factors that determine the level of the allowance for loan losses, we recorded a \$14,000 provision for loan losses for the six month period ended June 30, 2009 compared to the \$6,000 provision for loan losses for the six month period ended June 30, 2008. We continue to maintain exceptional credit quality within our loan portfolio with no charge-offs recorded within either reporting period. The allowance for loan losses as of June 30, 2009 was \$357,000, or 0.30% of total loans, compared to \$327,000, or 0.25% of total loans as of June 30, 2008. We had non-accrual loans totaling \$460,000, or 0.38% of total loans receivable as of June 30, 2009 compared to \$36,000, or 0.03% of loans in non-accrual status as of June 30, 2008.

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Other Income. Other income increased \$158,000, or 70.2%, to \$383,000 for the six months ended June 30, 2009 compared to \$225,000 for the six months ended June 30, 2008. We sold \$5.3 million of mortgage-backed securities and recorded a \$92,000 gain on sale. We also had an increase of \$24,000 in service fees resulting from an increase in checking account service charge fees. The \$68,000 increase in other income was primarily the result of mortgage fees and gain on sale of fixed rate mortgages to FHLMC. The reduction in fee income resulted from a \$26,000 decrease in Oakleaf subsidiary revenue.

Other Expenses. Other expenses increased \$243,000, or 10.6%, to \$2.5 million for the six months ended June 30, 2009 compared to \$2.3 million for the six months ended June 30, 2008. The \$180,000 increase in other expense was mainly the result of an additional \$174,000 in FDIC premium due to the \$91,000 special assessment accrued in the second quarter and an \$83,000 first and second quarter assessment at an increased rates over the prior year, \$65,000 in salaries and benefits expense primarily due to annual cost of living raises effective January 1 of each year, additional occupancy expense of \$21,000, and additional mortgage fees and taxes of \$20,000, partially offset by \$65,000 less in advertising expense.

Income Taxes. We had pre-tax net income of \$119,000 for the six months ended June 30, 2009 versus a pre-tax loss of \$150,000 for the six months ended June 30, 2008, which resulted in a \$41,000 tax expense for the six months ended June 30, 2009, versus a \$54,000 tax benefit for the six months ended June 30, 2008, a change of \$95,000. The effective tax rate was 34.5% for the six months ended June 30, 2009 compared to (36.0%) for the six months ended June 30, 2008.

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### 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 10.0% or greater. For the quarter ended June 30, 2009, our liquidity ratio averaged 18.6%. We believe that we have enough sources of liquidity to satisfy our short and long-term liquidity needs as of June 30, 2009.

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-term and intermediate-term securities and federal funds sold.

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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, 2009, cash and cash equivalents totaled \$6.3 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, 2009, we had \$3.8 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 deposits, due within one year of June 30, 2009 totaled \$72.0 million, or 76.4% of our certificates of deposit and 50.7% 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 due on or before June 30, 2010. 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 and will continue to be originating loans. During the three months ended June 30, 2009, we originated \$14.2 million of loans.

Financing activities consist primarily of activity in deposit accounts and Federal Home Loan Bank borrowings. We experienced a net increase in total deposits of \$14.5 million for the quarter ended June 30, 2009. 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.

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### Liquidity and Capital Resources (Continued)

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 borrowings decreased by \$7.8 million to \$37.7 million for the six months ended June 30, 2009, compared to a net increase of \$19.5 million to \$45.1 million for the six months ended June 30, 2008. Federal Home Loan Bank borrowings have primarily been used to fund loan demand and expanding the investment portfolio. At June 30, 2009, we had the ability to borrow approximately \$91.8 million from the Federal Home Loan Bank of New York, of which \$37.7 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, 2009, Fairport Savings Bank exceeded all regulatory capital requirements, and was considered "well capitalized" under regulatory guidelines.

### Off-Balance Sheet Arrangements

In the ordinary course of business, the Company 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.

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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 June 30, 2009 and 2008, we had \$3.8 million and \$6.9 million, respectively, of commitments to grant loans, and \$7.6 million and \$7.7 million, respectively, of unfunded commitments under lines of credit.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable since the Company is a smaller reporting company.

### Item 4T. 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.

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## 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 1A. Risk Factors

In addition to the other information contained this Quarterly Report on Form 10-Q, the following risk factors represent material updates and additions to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the Year Ended December 31, 2008, as filed with the Securities and Exchange Commission. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations. Further, to the extent that any of the information contained in this Quarterly Report on Form 10-Q constitutes

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forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of us.

Any Future FDIC Insurance Premiums Will Adversely Impact Our Earnings.

On May 22, 2009, the FDIC adopted a final rule levying a five basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. The special assessment is payable on September 30, 2009. We recorded an expense of \$91,000 during the quarter ended June 30, 2009, to reflect the special assessment. The final rule permits the FDIC's Board of Directors to levy up to two additional special assessments of up to five basis points each during 2009 if the FDIC estimates that the Deposit Insurance Fund reserve ratio will fall to a level that the FDIC's Board of Directors believes would adversely affect public confidence or to a level that will be close to or below zero. The FDIC has publicly announced that it is probable that it will levy an additional special assessment of up to five basis points later in 2009, the amount and timing of which are currently uncertain. Any further special assessments that the FDIC levies will be recorded as an expense during the appropriate period. In addition, the FDIC materially increased the general assessment rate and, therefore, our FDIC general insurance premium expense will increase substantially compared to prior periods.

A Legislative Proposal Has Been Introduced That Would Eliminate our Primary Federal Regulator and Require us to Convert to a National Bank or State Bank.

The U.S. Treasury Department recently released a legislative proposal that would implement sweeping changes to the current bank regulatory structure. The proposal would create a new federal banking regulator, the National Bank Supervisor, and merge our current primary federal regulator, the Office of Thrift Supervision, as well as the Office of the Comptroller of the Currency (the primary federal regulator for national banks) into this new federal bank regulator. The proposal would also eliminate federal savings banks and require all federal savings banks, such as Fairport Savings Bank, to elect, within six months of the effective date of the legislation, to convert to either a national bank, state bank or state savings association. A federal savings bank that does not make the election would, by operation of law, be converted into a national bank within one year of the effective date of the legislation. As of the date of this quarterly report on Form 10-Q, the legislative proposals contained in the Treasury white paper, including its proposal to eliminate the federal thrift, have not been formally considered by either house of the U.S. Congress. Accordingly, it is not clear whether the proposal to eliminate the federal thrift charter will become law.

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### 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) Not applicable.
- (c) There were no issuer repurchases of securities during the period covered by this Report.

### Item 3. Defaults Upon Senior Securities

Not applicable.

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

- (a) On May 20, 2009 the Company held its Annual Meeting of Stockholders.
- (b) At the meeting, Thomas J. Hanss, James E. Smith and Alicia H. Pender were elected, each to serve a three-year term.

The following directors continue in office:

Dana C. Gavenda  
Robert W. Sturn  
Charis W. Warshof  
Gary Lindsay  
Terence O'Neil  
Lowell T. Twitchell

- (c) Stockholders voted on the following matters:

- (i) The election of the following directors of the Company:

| DIRECTOR         | FOR       | WITHHELD |
|------------------|-----------|----------|
| Thomas J. Hanss  | 1,237,584 | 45,000   |
| James E. Smith   | 1,237,559 | 45,025   |
| Alicia H. Pender | 1,240,459 | 45,125   |

- (ii) The ratification of the appointment of Beard Miller LLP as the independent registered public accounting firm for the Company for the year ending December 31, 2009:

| VOTES     | FOR       | AGAINST | ABSTENTIONS | BROKER<br>NON-VOTES |
|-----------|-----------|---------|-------------|---------------------|
| 1,282,584 | 1,281,784 | 0       | 800         | 0                   |

### Item 5. Other Information

Not applicable

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### 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 Amended and Restated 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

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- 31.2 the Sarbanes-Oxley Act of 2002  
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) on March 16, 2007.
- \*\* Filed as an exhibit to the Company's Current Report on form 8-K filed with the Securities and Exchange Commission on April 7, 2009.

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SIGNATURES

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

FSB COMMUNITY BANKSHARES, INC.

Date: August 14, 2009 /s/ Dana C. Gavenda  
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Dana C. Gavenda  
President and Chief Executive Officer

Date: August 14, 2009 /s/ Kevin D. Maroney  
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Kevin D. Maroney  
Executive Vice President and Chief  
Financial Officer

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Exhibit 31.1

Certification of Chief Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Dana C. Gavenda, certify that:

1. I have reviewed this June 30, 2009 Quarterly Report on Form 10-Q of FSB Community Bankshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 31a-15(f) and 15d-15(f)) for the registrant and have:
- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2009

/s/ Dana C. Gavenda

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Dana C. Gavenda  
President and Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Kevin D. Maroney, certify that:

1. I have reviewed this June 30, 2009 Quarterly Report on Form 10-Q of FSB

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Community Bankshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report; 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 31a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2009

/s/ Kevin D. Maroney

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Kevin D. Maroney  
Executive Vice President and Chief

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Financial Officer

Exhibit 32

Certification of Chief Executive Officer and Chief Financial Officer Pursuant  
to Section 906 of the Sarbanes-Oxley Act of 2002

Dana C. Gavenda, Chief Executive Officer and President of FSB Community Bankshares, Inc., (the "Company") and Kevin D. Maroney, Executive Vice President and Chief Financial Officer of the Company, each certify in his capacity as an officer of the Company that he has reviewed the quarterly report on Form 10-Q for the quarter ended June 30, 2009 (the "Report") and that to the best of his knowledge:

1. the Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2009

/c/ Dana C. Gavenda

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Dana C. Gavenda  
President and Chief Executive Officer

Date: August 14, 2009

/s/ Kevin D. Maroney

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Kevin D. Maroney  
Executive Vice President and Chief  
Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.