FSB Community Bankshares Inc
Form 10-Q
August 14, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2008

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 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)

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

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

As of August 13, 2008 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.

FSB Community Bankshares, Inc.
FORM 10-Q

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Part I. Financial Information

Item 1. Consolidated Financial Statements

FSB COMMUNITY BANKSHARES, INC.

Consolidated Balance Sheets
June 30, 2008 and December 31, 2007 (unaudited)
(Dollars in thousands, except per share data)

Assets	June 30, 2008
Cash and due from banks	$ 1,362
Interest-earning demand deposits	3,705
Cash and Cash Equivalents	5,067
Securities available for sale	42,765
Securities held to maturity (fair value 2008 - $11,374, 2007- $28,597)	11,394
Investment in FHLB stock	2,293
Loans receivable, net of allowance for loan losses of: 2008 - $327, 2007 - $319	131,869
Accrued interest receivable	1,088
Premises and equipment, net	2,414
	262
Total Assets	$ 197,152
Liabilities & Stockholders' Equity	
Deposits:	
Non-interest-bearing	$ 3,399
Interest-bearing	125,764
Total Deposits	129,163
Borrowings	45,058
Advances from borrowers for taxes and insurance	2,478
Other liabilities	598
Total Liabilities	177,297
Stockholders' Equity	
Preferred Stock- no par- 1,000,000 shares authorized; no shares issued and outstanding	-
Common Stock- $0.10 par value - 10,000,000 shares authorized;	

1,785,000 shares issued and outstanding	179
Additional paid-in-capital	7,289
Retained earnings	13,128
Accumulated other comprehensive income (loss)	(94)
Unearned ESOP shares - at cost	(647)
Total Stockholders' Equity	19,855
Total Liabilities and Stockholders' Equity	$ 197,152

See accompanying notes to consolidated financial statements

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FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Operations
Three Months Ended June 30, 2008 and 2007 (unaudited)
(Dollars in thousands, except per share data)

	For the Three Mon Ended June 30,	
	2008	2
Interest and Dividend Income		
Loans	$ 1,847	$
Securities - taxable	370	
Mortgage-backed securities	302	
Other	16	
Total Interest and Dividend Income	2,535	
Interest expense		
Deposits	1,065	
Borrowings	431	
Total Interest Expense	1,496	
Net Interest Income	1,039	
Provision for Loan Losses	6	
Net Interest Income After Provision for Loan Losses	1,033	
Other Income		
Service fees	24	
Fee income	39	
Other	68	
Total Other Income	131	
Other Expenses		
Salaries and employee benefits	547	
Occupancy expense	114	
Data processing costs	25	
Advertising	88	

Equipment expense	80	
Electronic banking	17	
Directors fees	31	
Mortgage fees and taxes	66	
Other expense	182	
Total Other Expenses	1,150	
Income (Loss) Before Income Taxes	14	
Provision (Benefit) for Income Taxes	4	
Net Income (Loss)	$ 10	$
Earnings (Loss) per common share	$ 0.01	$

See accompanying notes to consolidated financial statements

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FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Operations
Six Months Ended June 30, 2008 and 2007 (unaudited)
(Dollars in thousands, except per share data)

	2008	20
Interest and Dividend Income		
Loans	$ 3,664	$
Securities - taxable	683	
Mortgage-backed securities	504	
Other	90	
Total Interest and Dividend Income	4,941	
Interest expense		
Deposits	2,207	
Short Term Borrowings	-	
Long Term Borrowings	809	
Total Interest Expense	3,016	
Net Interest Income	1,925	
Provision for Loan Losses	6	
Net Interest Income After Provision for Loan Losses	1,919	
Other Income		
Service fees	48	
Fee income	54	
Other	123	

Total Other Income	225	
Other Expenses		
Salaries and employee benefits	1,184	
Occupancy expense	228	
Data processing costs	41	
Advertising	149	
Equipment expense	165	
Electronic banking	35	
Directors fees	57	
Mortgage fees and taxes	96	
Other expense	339	
Total Other Expenses	2,294	
Loss Before Income Taxes	(150)	
Income Tax (Benefit)	(54)	
Net Loss	$ (96)	$
Loss per common share	$ (0.06)	$

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, 2008 and 2007 (unaudited)
(Dollars in thousands)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensiv Income (Loss
Balance - January 1, 2007	$ -	$ 10	$ 13,505	$ 355
Comprehensive loss:				
Net loss	-	-	(247)	-
Change in net unrealized gain on securities available for sale, net of taxes	-	-	-	(44
Total Comprehensive Loss	-	-	-	-
Balance - June 30, 2007	$ -	$ 10	$ 13,258	$ 311
Balance - January 1, 2008	$ 179	$ 7,293	$ 13,224	$ 118
Comprehensive loss:				
Net loss	-	-	(96)	-

Change in net unrealized gain (loss) on securities available for sale, net of taxes	-	-	-	(212
Total Comprehensive Loss				
ESOP shares committed to be released	-	(4)	-	-
Balance - June 30, 2008	$ 179	$ 7,289	$ 13,128	$ (94

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, 2008 and 2007 (unaudited) (Dollars in thousands)

	2008
Cash Flows From Operating Activities	
Net Loss	$ (96)
Adjustments to reconcile net loss to net cash used by operating activities:	
Net amortization of premiums and discounts on investments	162
Gain on sale of loans	(7)
Amortization of net deferred loan origination fees	(12)
Depreciation and amortization	134
Provision for loan losses	6
Expense related to stock-based compensation plans	14
Deferred income tax benefit	(35)
Decrease (increase) in accrued interest receivable	(216)
Derease (increase) in other assets	6
Decrease in other liabilities	(107)
Net Cash Used By Operating Activities	(151)
Cash Flows From Investing Activities	
Purchase of securities held to maturity	(3,001)
Proceeds from maturities and calls of securities held to maturity	18,988
Proceeds from principal paydowns of securities held to maturity	1,149
Purchase of securities available for sale	(49,948)
Proceeds from maturities and calls of securities available for sale	5,500
Proceeds from principal paydowns of securities available for sale	1,462
Net (increase) decrease in loans	(9,154)
Proceeds from sales of loans	1,627
Purchase (redemption) of Federal Home Loan Bank stock	(888)
Purchase of premises and equipment	(23)
Net Cash Used By Investing Activities	(34,288)

Cash Flows From Financing Activities	
Net increase in deposits	10,005
Net decrease in short term borrowings	-
Proceeds from borrowings	21,500
Repayments on borrowings	(2,023)
Net increase in advances from borrowers for taxes and insurance	580
Net Cash Provided By Financing Activities	30,062
Net Increase (Decrease) in Cash and Cash Equivalents	(4,377)
Cash and Cash Equivalents- Beginning	9,444
Cash and Cash Equivalents- End	$ 5,067

FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Cash Flows, Continued

	2008
Supplementary Cash Flows Information	
Interest paid	$ 3,089
Income taxes paid	$ -

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Note 1-Basis of Presentation

The accompanying unaudited consolidated financial statements of FSB Community Bankshares, Inc., and its wholly owned subsidiary (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q. 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 years ended December 31, 2007 and 2006, included in the Annual Report filed on Form 10-KSB with the Securities and Exchange Commission ("SEC") on March 31, 2008.

Operating results for the six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The consolidated financial statements at June 30, 2008 and December 31, 2007 and for the three and six months ended June 30, 2008 and 2007 include the accounts of the Company, Fairport Savings Bank (the "Bank") and the Bank's wholly-owned subsidiary, Oakleaf Services Corporation ("Oakleaf"). All inter-company balances and transactions have been eliminated in consolidation. Certain amounts from prior periods have been reclassified, when necessary, to conform to current period presentation.

Note 2-Fair Value Accounting

In September 2006, the FASB issued FASB 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. The Company adopted SFAS 157 on January 1, 2008.

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 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's 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, 2008:

(In Thousands)	Total	Level 1	Level 2

Securities available for sale	$ 42,765	$ -	$ 42,765

The fair values for available-for-sale securities in the table above were based upon a market approach. Securities that are fixed income instruments that are not quoted on an exchange, but are traded in active markets, are obtained through third party data service providers or dealer market participants which the Company has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include market quotations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS 159 was effective as of January 1, 2008. The Company chose not to elect the fair value option for any of its financial instruments.

Note 3-Recent Accounting Pronouncements

FASB Statement No. 141 (R) "Business Combinations" was issued in December of 2007. This Statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The Statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15, 2008. This new pronouncement will impact our accounting for business combinations after January 1, 2009.

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In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." This Statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

Note 4-Comprehensive Income (Loss)

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

The components of other comprehensive income (loss) and related tax effects for the three and six months ended June 30, 2008 and 2007 are as follows:

	For the Three Months Ended June 30,		For the Six M... June
	2008	2007	2008
	(In Thousands)		(In Tho...
Unrealized holding gain (loss) on available for sale securities	$ (317)	$ 9	(323)
Tax effect	(109)	3	(111)
Net of tax amount	$ (208)	$ 6	(212)

Note 5- Earnings (Loss) Per Common Share

Basic earnings (loss) per common share is calculated by dividing the net income (loss) by the weighted-average number of common shares outstanding during the period. The common shares issued to FSB Community Bankshares, MHC of 946,050 are assumed to be outstanding for all periods presented, consistent with the provisions of SFAS No. 128, Earnings per Share, pertaining to changes in capital structure. The 838,950 shares issued to the public are included in the weighted average common shares outstanding calculation only from the date such shares were issued. The Company has not granted any restricted stock awards or stock options and, during the six months ended June 30, 2008 and 2007, 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 basic earnings (loss) per common share until they are committed to be released. The basic average common shares outstanding were 1,718,526 for the three months and six months ended June 30, 2008 and 946,050 for the three months and six months ended June 30, 2007.

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, 2008, 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 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-KSB with the Securities and Exchange Commission on March 31, 2008. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the consolidated financial statements and how those values are determined. We have identified the accounting for our allowance for loan losses as our critical accounting policy.

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

As a substantial percentage of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are

critical in determining the amount of the allowance required for specific loans. Assumptions are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property securing a loan and the related allowance determined. Management carefully reviews the assumptions supporting such appraisals to determine that the resulting values reasonably reflect amounts realizable on the related loans.

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

conditions.

The 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.

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

Comparison of Financial Condition at June 30, 2008 and December 31, 2007

Total Assets. Total assets increased by $29.6 million, or 17.7%, to $197.2 million at June 30, 2008 from $167.6 million at December 31, 2007. The primary increase in total assets reflected increases in securities and loans receivable, partially offset by decreases in cash and cash equivalents.

Cash and cash equivalents decreased by $4.3 million, or 45.7% to $5.1 million on June 30, 2008 from $9.4 million on December 31, 2007. The Federal Reserve decreased short term interest rates 325 basis point from 5.25% to 2.00% since September 2007. As a result, management decided to re-invest excess interest earning demand deposits in higher yielding securities and loans.

Securities increased by $25.4 million, or 88.2%, to $54.2 million at June 30, 2008 from $28.8 million at December 31, 2007. The increase was attributable to purchases of $33.9 million of United States Government agency securities and purchases of $19.0 million of mortgage-backed securities, partially offset by maturities of $24.5 million of United States Government agency securities, $2.6 million of principal payments received from mortgage-backed securities and a $323,000 decrease in the fair value of equity securities available for sale. In February 2008, the Company executed a $14.6 million mortgage-backed securities balance sheet leverage strategy funded by FHLB advances in an effort to increase earnings, as described below. All securities purchased in 2008, other than $3.0 million of United States Government agency securities purchased in January 2008, have been classified as securities available for sale. Management's decision to increase the securities classified as available for sale is intended to provide greater liquidity as an alternative to borrowings.

Investment in FHLB of New York stock increased by $888,000, or 63.2% to $2.3 million at June 30, 2008, from $1.4 million at December 31, 2007. The FHLB of New York requires members to purchase additional stock with additional borrowings.

Loans receivable increased by $7.6 million, or 6.1%, to $131.9 million at June 30, 2008 from $124.3 million at December 31, 2007. The increase in loans receivable was primarily the result of increases in net residential mortgage loans totaling $8.6 million and home equity loans and lines of credit totaling $459,000, partially offset by sales of fixed rate 30 year residential mortgages totaling $1.6 million. The Bank has no exposure to sub-prime lending activities.

Deposits and Borrowings. Total deposits increased by $10.0 million, or

8.4%, to $129.2 million at June 30, 2008 from $119.2 million at December 31, 2007. Certificates of deposit, including IRAs, increased by $5.7 million. Transaction accounts, including checking, NOW, money market and savings accounts, increased by $4.3 million. The net deposit growth was attributable to the Irondequoit branch growth of $5.2 million, Fairport branch growth of $1.8 million and Penfield branch growth of $3.0 million.

Borrowings increased by $19.5 million, or 76.2%, to $45.1 million at June 30, 2008 from $25.6 million on December 31, 2007. The increase in borrowings included $14.6 million as part of the balance sheet leverage strategy executed in February 2008 that, at the time of the transaction, generated a positive 149 basis point spread.

Stockholders' Equity. Total stockholders' equity decreased by $294,000, or 1.5%, to $19.8 million at June 30, 2008 from $20.1 million at December 31, 2007. The decrease resulted principally from a net loss of $96,000 for the six months ended June 30, 2008, and a $212,000 increase in accumulated other comprehensive loss.

Non-Performing Assets. At June 30, 2008, there were two home equity lines of credit secured by real estate totaling $36,000 classified as non-performing assets compared to $63,000 in one-to-four-family residential mortgage loans classified as non-performing assets at December 31, 2007.

At June 30, 2008, 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, 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.

	For the Three Months Ended June 30,				
	2008			2007	
	Average Balance	Interest Income Expense	Yield/ Cost	Average Balance	Interest Income Expense
	(Dollars in thousands)				
Interest-earning assets:					
Loans...........................	$ 126,995	$ 1,847	5.82%	$ 120,083	$ 1,782
Securities......................	31,378	370	4.72	18,791	242
Mortgage-backed securities.......	26,757	302	4.51	6,025	64
Other...........................	3,158	16	2.03	3,293	41
Total interest-earning assets..	188,288	2,535	5.39%	148,192	2,129

Non-interest-earning assets......	4,838			4,980	
Total assets..................	$ 193,126			$ 153,172	
Interest-bearing liabilities:					
NOW accounts.....................	$ 6,742	15	0.89%	$ 5,390	$ 8
Passbook savings.................	14,241	32	0.90	13,536	35
Money market savings.............	11,203	52	1.86	10,604	75
Individual retirement accounts...	16,275	179	4.40	15,714	173
Certificates of deposit..........	76,366	787	4.12	68,265	773
Borrowings.......................	42,077	431	4.10	20,536	255
Total interest-bearing liabilities.................	166,904	1,496	3.59%	134,045	1,319
Non-interest-bearing liabilities:					
Demand deposits..................	3,303			3,124	
Other............................	2,774			2,351	
Total liabilities...........	172,981			139,520	
Stockholders' equity.............	20,145			13,652	
Total liabilities and stockholders' equity.......	$ 193,126			$ 153,172	
Net interest income............		$ 1,039			$ 810
Interest rate spread (1)........			1.80%		
Net interest-earning assets (2).	$ 21,384			$ 14,147	
Net interest margin (3).........		2.21%			2.18%
Average interest-earning assets to average interest-bearing liabilities.................	113%			111%	

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(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.

	For the Six Months Ended June 30,				
	2008			2007	
	Average Balance	Interest Income Expense	Yield/ Cost	Average Balance	Interest Income Expense

(Dollars in thousands)

Interest-earning assets:					
Loans........................	$ 124,979	3,664	5.86%	$ 120,277	$ 3,575
Securities....................	28,921	683	4.72	19,101	477
Mortgage-backed securities....	22,213	504	4.54	5,899	123
Other........................	6,062	90	2.97	1,882	47
Total interest-earning assets	182,175	4,941	5.42%	147,159	4,222
Non-interest-earning assets...	4,887			4,839	
Total assets...............	$ 187,062			$ 151,998	
Interest-bearing liabilities:					
NOW accounts..................	$ 6,206	27	0.87	$ 5,139	16
Passbook savings..............	13,851	71	1.03	12,866	77
Money market savings.........	11,027	120	2.18	10,407	146
Individual retirement accounts	16,199	360	4.44	15,358	330
Certificates of deposit.......	75,223	1,629	4.33	66,871	1,458
Borrowings....................	38,720	809	4.18	22,355	545
Total interest-bearing liabilities.............	161,226	3,016	3.74%	132,996	2,572
Non-interest-bearing liabilities:					
Demand deposits.........	3,193			3,185	
Other........................	2,515			2,132	
Total liabilities........	166,934			138,313	
Stockholders' equity..........	20,128			13,685	
Total liabilities and stockholders' equity.....	$ 187,062			$ 151,998	
Net interest income...........		1,925			1,650
Interest rate spread (1)......			1.68%		
Net interest-earning assets (2)	20,949			14,163	
Net interest margin (3).......		2.11%			2.24%
Average interest-earning assets to average interest-bearing liabilities...............	113%			111%	

Comparison of Operating Results for the Three Months Ended June 30, 2008 and June 30, 2007

General. We had net income of $10,000 for the three months ended June 30, 2008 compared to a net loss of $112,000 for the three months ended June 30, 2007. Net income for the second quarter of 2008 compared to the loss for the second quarter of 2007 resulted primarily from an increase in net interest income of $229,000, other income of $53,000, partially offset by an increase of other expense of $87,000, increased provision for loan losses of $6,000, and increased income tax expense of $67,000. The increase in interest earning assets

was primarily the result of funds received from our stock offering that closed issuance in August 2007, being invested in securities and loans, and a $14.6 million balance sheet leverage strategy whereby we increased FHLB borrowings and re-invested those funds into higher-yielding mortgage-backed securities, that was executed in February 2008.

Interest and Dividend Income. Interest and dividend income increased by $406,000, or 19.1%, to $2.5 million for the three months ended June 30, 2008 from $2.1 million for the three months ended June 30, 2007. The increase in interest and dividend income resulted from a $65,000, or 3.6%, increase in interest income from loans, a $128,000, or 52.9%, increase in interest income from securities, a $238,000, or 371.9% increase in interest income from mortgage-backed securities, offset by a $25,000 or 61.0% decrease in other interest income, and also interest earning demand accounts. Average interest-earning assets increased by $40.1 million, or 27.1%, to $188.3 million for the three months ended June 30, 2008 from $148.2 million for the three

months ended June 30, 2007. The yield on interest-earning assets decreased by 36 basis points to 5.39% for the three months ended June 30, 2008 compared to 5.75% for the three months ended June 30, 2007, reflecting the effect of the 325 basis point drop in interest rates by the Federal Reserve since September 2007.

Interest Expense. Interest expense increased $177,000, or 13.4%, to $1.5 million for the three months ended June 30, 2008 from $1.3 million for the three months ended June 30, 2007. The increase in interest expense resulted from an increase in the average balances in interest-bearing liabilities of $32.9 million, or 24.5%, to $166.9 million for the three months ended June 30, 2008 compared to $134.0 million for the three months ended June 30, 2007. The average cost of interest-bearing liabilities decreased by 35 basis points to 3.59% for the three months ended June 30, 2008 from 3.94% for the three months ended June 30, 2007. The average cost of deposit accounts decreased by 34 basis points to 3.41% for the three months ended June 30, 2008 compared to 3.75% for the three months ended June 30, 2007. The average cost of borrowings decreased by 87 basis points to 4.10% for the three months ended June 30, 2008 compared to 4.97% for the three months ended June 30, 2007. The increase in interest expense reflects a higher volume of deposits and borrowings.

At June 30, 2008, we had $21.1 million of certificates of deposit, including individual retirement accounts that will mature during the third quarter of 2008 with a weighted average cost of 4.38%. Based on current market rates, if these funds remain with Fairport Savings Bank with similar maturities, the rates we pay on these deposits will decrease.

Net Interest Income. Net interest income increased $229,000, or 28.3%, to $1.0 million for the three months ended June 30, 2008 from $810,000 for the three months ended June 30, 2007. The increase in net interest income was due primarily to an increase in average interest-earning assets of $7.2 million more than interest-bearing liabilities, due to the investment of the proceeds of our stock offering that closed in August 2007, as well as the $14.6 million balance sheet leverage transaction. The Company's net interest margin increased 3 basis points to 2.21% for the three months ended June 30, 2008 from 2.18% for the three months ended June 30, 2007. The increase in net interest margin was primarily attributable to the effect of a normal yield curve in 2008 compared to the effect of the flat or inverted yield curve that existed for much of 2007. If the current interest rate environment remains relatively stable through the remainder of 2008, we anticipate continued improvement in our net interest margin with certificates of deposits maturing and renewing at lower interest rates, and new loan volume added to the balance sheet at higher interest rates.

Provision for Loan Losses. Based on management's evaluation of the factors that determine the level of the allowance for loan losses, we recorded $6,000 in provision for loan losses for the three month periods ended June 30, 2008 compared to no provision for loan losses for the three months ended June 30, 2007. The allowance for loan losses as of June 30, 2008 was $327,000, or .25% of total loans, compared to $322,000, or 0.27% of total loans as of June 30, 2007. We had $36,000, or 0.03% in non-accrual loans as of June 30, 2008 compared to $238,000, or 0.20% of loans in non-accrual loan status as of June 30, 2007.

Other Income. Total other income increased $53,000, or 67.9%, to $131,000 for the three months ended June 30, 2008 compared to $78,000 for the three months ended June 30, 2007. Other income grew by $35,000, primarily an increase in checking account service charge fees associated with the courtesy overdraft protection at point of sale and ATM's, and an increase of $19,000 in commissions from Oakleaf Services insurance/annuity and security sales.

Other Expenses. Other expenses increased $87,000, or 8.2%, to $1.1 million for the three months ended June 30, 2008 compared to $1.1 million for the three

months ended June 30, 2007. The increase was the result of an increase of $5,000 in occupancy expenses primarily due to increased lease expense for the Penfield branch, an increase of $28,000 in advertising and marketing expenses, an increase of $19,000 in mortgage fees and taxes due to increased mortgage and home equity origination volume, and an increase of $35,000 in miscellaneous other expenses, primarily the additional costs associated with being a public company.

Income Tax Expense/Benefit. We had pre-tax income of $14,000 for the three months ended June 30, 2008 versus a pre-tax loss of $175,000 for the three months ended June 30, 2007, which resulted in a $4,000 tax expense for the three months ended June 30, 2008, versus a $63,000 tax benefit for the three months ended June 30, 2007, a change of $67,000. The effective tax rate was 28.6% for the three months ended June 30, 2008 compared to (36.0%) for the three months ended June 30, 2007.

Comparison of Operating Results for the Six Months Ended June 30, 2008 and June 30, 2007

General. We had a net loss of $96,000 for the six months ended June 30, 2008 compared to a net loss of $247,000 for the six months ended June 30, 2007. The improvement was attributable to an increase in net interest income of $275,000, an increase in other income of $66,000, partially offset by an increase in other expenses of $100,000, a $6,000 provision for loan losses, and a decrease in income tax benefit of $84,000. The net interest income improvement was generated by an increase in interest-earning assets due to the investment of the proceeds of our initial stock offering that closed in August 2007, as well as the balance sheet leverage transaction.

Interest and Dividend Income. Interest and dividend income increased by $719,000, or 17.1% to $4.9 million for the six months ended June 30, 2008 from $4.2 million for the six months ended June 30, 2007. The increase in interest and dividend income resulted primarily from an $89,000, or 2.5%, increase in interest income from loans, a $206,000, or 43.2%, increase in interest income from securities, a $381,000, or 309.8% increase in interest income from mortgage-backed securities, and a $43,000, or 91.5% increase in interest income from other sources. Average interest-earning assets increased by $35.0 million, or 23.8%, to $182.2 million for the six months ended June 30, 2008 from $147.2 million for the six months ended June 30, 2007. The yield on interest earning assets decreased by 32 basis points to 5.42% for the six months ended June 30,

2008 compared to 5.74% for the six months ended June 30, 2007, reflecting decreases in interest rates in an asset structure that grew primarily in securities and adjustable rate mortgage-backed securities.

Interest Expense. Interest expense increased $444,000, or 17.3%, to $3.0 million for the six months ended June 30, 2008 from $2.6 million for the six months ended June 30, 2007. The increase in interest expense resulted from an increase in average balances in interest-bearing liabilities of $28.2 million, or 21.2%, to $161.2 million for the six months ended June 30, 2008 compared to $133.0 million for the six months ended June 30, 2007. The average cost of interest-bearing liabilities decreased by 13 basis points to 3.74% for the six months ended June 30, 2008 from 3.87% for the six months ended June 30, 2007. The average cost of deposit accounts decreased by 6 basis points to 3.60% for the six months ended June 30, 2008 compared to 3.66% for the six months ended June 30, 2007. In addition, the average cost of borrowings decreased by 70 basis points to 4.18% for the six months ended June 30, 2008 compared to 4.88% for the six months ended June 30, 2007. The interest expense increase was the result of increased volume in both deposits and borrowings.

Net Interest Income. Net interest income increased $275,000, or 16.7%, to $1.9 million for the six months ended June 30, 2008 from $1.6 million for the six months ended June 30, 2007. The increase in net interest income was due primarily to an increase of interest bearing assets of $6.8 million more than interest bearing liabilities. The average cost of our interest-bearing liabilities decreased by 13 basis points, while the average yield on our interest-earning assets decreased by 32 basis points, as the deposit growth of

the Bank has primarily been in time deposits, which carry higher costs than other deposit alternatives. Our net interest margin decreased by 13 basis points to 2.11% for the six months ended June 30, 2008 from 2.24% for the six months ended June 30, 2007.

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 $6,000 provision for loan losses for the six month period ended June 30, 2008 and no provision for loan losses for the six month period ended June 30, 2007. We believe that we maintain exceptional credit quality within our loan portfolio with no charge-offs recorded within the reporting period. The allowance for loan losses as of June 30, 2008 was $327,000, or 0.25% of total loans, compared to $322,000, or 0.27% of total loans as of June 30, 2007. We had non-accrual loans totaling $36,000, or .03% of total loans receivable as of June 30, 2008 compared to $238,000, or 0.20% of loans in non-accrual status as of June 30, 2007.

Other Income. Other income increased $66,000, or 41.5%, to $225,000 for the six months ended June 30, 2008 compared to $159,000 for the six months ended June 30, 2007. The increase in other income was primarily the result of a $12,000 increase in our Oakleaf subsidiary revenue and a $55,000 increase in other income from an increase in checking account service charge fees associated with the courtesy overdraft protection at point of sale and ATM's.

Other Expense. Other expense increased $100,000, or 4.5%, to $2.3 million for the six months ended June 30, 2008 compared to $2.2 million for the six months ended June 30, 2007. The increase was mainly the result of an additional $11,000 in salaries and benefits expense primarily due to annual cost of living raises effective January 1 of each year, a $25,000 increase in mortgage fees and taxes due to increased loan volume, a $14,000 increase in electronic banking after ATM vendor switch credits were applied, a $12,000 increase in occupancy expense due to property tax and rent increases at the Penfield Branch, and an

increase of $76,000 in other expenses, including directors fees, primarily due to increased costs associated with being a newly registered public company.

Income Tax Benefit. We had a pre-tax loss of $150,000 for the six months ended June 30, 2008 versus a pre-tax loss of $385,000 for the six months ended June 30, 2007, which resulted in a $54,000 tax benefit for the six months ended June 30, 2008, versus a $138,000 tax benefit for the six months ended June 30, 2007, a change of $84,000. The effective tax rate was (36.0%) for the six months ended June 30, 2008 compared to (35.8%) for the six months ended June 30, 2007.

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, 2008, our liquidity ratio averaged 19.4%. We believe that we have enough sources of liquidity to satisfy our short and long-term liquidity needs as of June 30, 2008.

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.

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, 2008, cash and cash equivalents totaled $5.1 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, 2008, we had $6.9 million in loan commitments outstanding. In addition to commitments to originate loans, we had $7.7 million in unused lines of credit to borrowers. Certificates of deposit, including individual retirement accounts comprised solely of certificates of deposits, due within one year of June 30, 2008 totaled $67.3 million, or 73.2% of our certificates of deposit and 52.1% 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, 2009. 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 six months ended June 30, 2008, we originated $16.4 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 $864,000 for the quarter ended June 30, 2008. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of New York, which provides an additional source of funds. Federal Home Loan Bank borrowings increased by $19.5 million to $45.1 million for the six months ended June 30, 2008, compared to a net decrease of $8.1 million to $20.0 million for the six months ended June 30, 2007. Federal Home Loan Bank borrowings have primarily been used to fund loan demand; however $14.6 million of advances were used to fund a balance sheet leverage transaction in February 2008 whereby we re-invested these borrowings into higher-yielding mortgage-backed securities. At June 30, 2008, we had the ability to borrow approximately $96.8 million from the Federal Home Loan Bank of New York, of which $45.1 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, 2008, Fairport Savings Bank exceeded all regulatory capital requirements, and was considered "well capitalized" under regulatory guidelines.

The net proceeds from our 2007 minority stock offering significantly increased our liquidity and capital resources. Over time, the initial level of liquidity will be reduced as net proceeds from the stock offering are used for general corporate purposes, including the funding of loans. Our financial condition and results of operations will be enhanced by the net proceeds from the stock offering, resulting in increased net interest-earning assets and net interest income. However, due to the increase in equity resulting from the net proceeds raised in the stock offering, our return on equity was adversely affected following the stock offering.

Off-Balance Sheet Arrangements

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

Commitments to extend credit are agreements to lend to a customer as long

as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by us, is based on our credit evaluation of the customer.

At June 30, 2008 and 2007, we had $6.9 million and $4.4 million, respectively, of commitments to grant loans, and $7.7 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 4. Controls and Procedures

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

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

Part II - Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Not applicable since the Company is a smaller reporting company.

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.

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

An annual meeting of shareholders was held at 2:00 pm on May 21, 2008 at the Perinton Community Center, 1350 Turk Hill Road, Fairport, NY 14450. The matters considered and voted on at the annual meeting were as follows:

Proposal No. 1

The election of Gary Lindsay, Terence O'Neil and Lowell T. Twitchell, each to serve as a director of the Company for a term of three-years, and the election of Alicia H. Pender, as a director of the Company to serve a one-year term, and until their successors have been elected and qualified.

	For	Withheld
Gary Lindsay	1,453,330	41,550
Terence O'Neil	1,356,578	138,302
Lowell T. Twitchell	1,452,230	41,650
Alicia H. Pender	1,494,630	42,650

Additionally, the following directors remain in office: Thomas J. Hanss, James E. Smith, Dana C. Gavenda, Robert W. Sturn and Charis W. Warshof.

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Proposal No. 2

The approval of the ratification of the appointment of Beard Miller Company LLP as the independent registered public accounting firm for the Company for the year ending December 31, 2008.

	For	Against	Abstain	Broke
Number of shares voted	1,494,630	0	0	0
Percentage of all shares voted	100%	0%	0%	0

Item 5. Other Information

Not applicable

Item 6. Exhibits

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

3.1 Charter of FSB Community Bankshares, Inc.*
3.2 Bylaws of FSB Community Bankshares, Inc.*
4 Form of Common Stock Certificate of FSB Community Bankshares, Inc.*

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

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

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 13, 2008

/s/ Dana C. Gavenda

Dana C. Gavenda
President and Chief Executive Officer

Date: August 13, 2008

/s/ Kevin D. Maroney

Kevin D. Maroney
Executive Vice President and Chief Financial Officer