FSB Community Bankshares Inc
Form 10-Q
November 13, 2009

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 September 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)

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[X]
(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 November 13, 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.

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
September 30, 2009 and December 31, 2008 (unaudited)
(Dollars in thousands, except per share data)

Assets	September 30, 2009
Cash and due from banks	$ 7,472
Interest-earning demand deposits	2,571
Cash and Cash Equivalents	10,043
Securities available for sale	81,638
Securities held to maturity (fair value 2009 -$6,500, 2008- $7,091)	6,433
Investment in FHLB stock	2,002
Loans receivable, net of allowance for loan losses of: 2009 - $360, 2008 - $345	116,963
Accrued interest receivable	1,353
Premises and equipment, net	2,582
Other assets	665
Total Assets	$ 221,679

Liabilities & Stockholders' Equity	
Deposits:	
Non-interest-bearing	$ 3,906
Interest-bearing	156,241
Total Deposits	160,147
Short-term borrowings	-
Long-term borrowings	37,172
Advances from borrowers for taxes and insurance	942
Official bank checks	2,340
Other liabilities	604

Total Liabilities	201,205
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	7,276
Retained earnings	13,293
Accumulated other comprehensive income (loss)	330
Unearned ESOP shares - at cost	(604)
Total Stockholders' Equity	20,474
Total Liabilities and Stockholders' Equity	$ 221,679

See accompanying notes to consolidated financial statements

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FSB COMMUNITY BANKSHARES, INC.

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

	2009	
Interest and Dividend Income		
Loans	$ 1,669	$
Securities - taxable	415	
Mortgage-backed securities	264	
Other	2	
Total Interest and Dividend Income	2,350	
Interest expense		
Deposits	844	
Borrowings:		
Short-term	-	
Long-term	404	
Total Interest Expense	1,248	
Net Interest Income	1,102	
Provision for Loan Losses	7	
Net Interest Income After Provision for Loan Losses	1,095	

Other Income	
Service fees	73
Fee income	5
Impairment loss on securities available for sale	-
Gain on sale of loans	4
Other	51
Total Other Income	133
Other Expense	
Salaries and employee benefits	613
Occupancy expense	130
Data processing costs	25
Advertising	76
Equipment expense	92
Electronic banking	21
Directors' fees	25
Mortgage fees and taxes	71
FDIC Premium expense	80
Other expense	152
Total Other Expenses	1,285
Income (Loss) Before Income Taxes	(57)
Provision (Benefit) for Income Taxes	(23)
Net Income (Loss)	$ (34)
Earnings (Loss) per common share	$ (0.02)

See accompanying notes to consolidated financial statements

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FSB COMMUNITY BANKSHARES, INC.

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

	2009
Interest and Dividend Income	
Loans	$ 5,333
Securities - taxable	983
Mortgage-backed securities	889
Other	5
Total Interest and Dividend Income	7,210
Interest expense	
Deposits	2,586
Borrowings:	
Short-term	1
Long-term	1,234

Total Interest Expense	3,821	
Net Interest Income	3,389	
Provision for Loan Losses	21	
Net Interest Income After Provision for Loan Losses	3,368	
Other Income		
Service fees	188	
Fee income	33	
Gain on sale of securities available for sale	92	
Impairment loss on securities available for sale	-	
Gain on sale of loans	49	
Other	154	
Total Other Income	516	
Other Expense		
Salaries and employee benefits	1,862	
Occupancy expense	379	
Data processing costs	72	
Advertising	160	
Equipment expense	269	
Electronic banking	60	
Directors' fees	82	
Mortgage fees and taxes	187	
FDIC Premium expense	261	
Other expense	490	
Total Other Expenses	3,822	
Income (Loss) Before Income Taxes	62	
Provision (Benefit) for Income Taxes	18	
Net Income (Loss)	$ 44	$
Earnings (Loss) per common share	$ 0.03	$

See accompanying notes to consolidated financial statements

FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Stockholders' Equity
Nine Months Ended September 30, 2009 and 2008 (unaudited)
(Dollars in thousands)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumul Othe Compreh Income

Balance - January 1, 2008	$ 179	$ 7,293	$ 13,224	$
Comprehensive loss:				
Net loss	-	-	(95)	
Change in net unrealized gain (loss) on securities available for sale, net of taxes	-	-	-	
Total Comprehensive Loss				
ESOP shares committed to be released	-	(5)	-	
Balance - September 30, 2008	$ 179	$ 7,288	$ 13,129	$
Balance - January 1, 2009	$ 179	$ 7,286	$ 13,249	$
Comprehensive income:				
Net income	-	-	44	
Change in net unrealized gain (loss) on securities available for sale, net of reclassification adjustment and taxes	-	-	-	
Total Comprehensive Income				
ESOP shares committed to be released	-	(10)	-	
Balance - September 30, 2009	$ 179	$ 7,276	$ 13,293	$

See accompanying notes to consolidated financial statements

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FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2009 and 2008 (unaudited)
(Dollars in thousands)

	2009
Cash Flows From Operating Activities	
Net Income (Loss)	$ 44
Adjustments to reconcile net income (loss) to net cash provided by (used by)	
operating activities:	
Net amortization of premiums and discounts on investments	479
Gain on sale of securities available for sale	(92)
Impairment loss on securities available-for-sale	-
Gain on sale of loans to others	(49)
Proceeds from loans sold to others	12,709
Loans originated for sale	(12,660)
Amortization of net deferred loan origination fees and costs	11
Depreciation and amortization	221

Provision for loan losses	21
Expense related to ESOP	16
Deferred income tax benefit	(43)
Increase in accrued interest receivable	(321)
Increase in other assets	(272)
Increase (decrease) in other liabilities	(103)
Net Cash Provided by (Used By) Operating Activities	(39)
Cash Flows From Investing Activities	
Purchase of securities held to maturity	-
Proceeds from maturities and calls of securities held to maturity	-
Proceeds from principal paydowns of securities held to maturity	850
Purchase of securities available for sale	(79,566)
Proceeds from maturities and calls of securities available for sale	33,037
Proceeds from principal paydowns of securities available for sale	3,602
Proceeds from sales of securities available for sale	5,355
Net (increase) decrease in loans	18,718
Proceeds from loans sold to others	-
Redemption (purchase) of Federal Home Loan Bank stock	310
Purchase of premises and equipment	(495)
Net Cash Used By Investing Activities	(18,189)
Cash Flows From Financing Activities	
Net increase in deposits	32,625
Net decrease in short-term borrowings	(3,850)
Proceeds from long-term borrowings	-
Repayments on long-term borrowings	(4,459)
Net decrease in advances from borrowers for taxes and insurance	(1,210)
Net increase in official bank checks	1,992
Net Cash Provided By Financing Activities	25,098
Net Increase (Decrease) in Cash and Cash Equivalents	6,870
Cash and Cash Equivalents- Beginning	3,173
Cash and Cash Equivalents- Ending	$ 10,043

FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Cash Flows, (Continued)

	2009	2008
Supplementary Cash Flows Information		

Interest paid	$ 3,836	$ 4,536
Income taxes paid	$ 115	$ 1

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 Fairport Savings Bank (collectively, 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 Company follows accounting standard set by the Financial Accounting Standards Board, commonly referred to as the "FASB". The FASB sets generally accepted accounting principles ("GAAP") that the Company follows. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification, sometimes referred to as the Codification or ASC. The FASB finalized the Codification effective for periods ending on or after September 15, 2009.

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 consolidated 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 nine months ended September 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 September 30, 2009 and December 31, 2008 and for the three and nine months ended September 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 November 13, 2009 which is the date the consolidated financial statements were issued.

Note 2-Fair Value Measurement and Disclosure

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.

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Note 2-Fair Value Accounting and Measurement (Continued)

In September 2006, the Financial Accounting Standards Board ("FASB") issued ASC Topic 820, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. ASC Topic 820 applies to other accounting pronouncements that require or permit fair value measurements.

ASC Topic 820 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 ASC Topic 820 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 September 30, 2009 and at December 31, 2008:

(Dollars in Thousands)	Total	Level 1	Level 2
September 30, 2009			
Securities available for sale	$ 81,638	$ 13	$ 81,625
December 31, 2008			
Securities available for sale	$ 3,925	$ 6	$ 43,919

No assets or liabilities have been measured on a non-recurring basis at September 30, 2009 or December 31, 2008.

FASB ASC Topic 825-10-50, Disclosure about Fair Value of Financial Instruments, 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. ASC Topic 825-10-50 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 September 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.

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 September 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.

There were no loans held for sale during the three or nine months ended September 30, 2009 and September 30, 2008.

Accrued Interest Receivable and Payable

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

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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.

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.

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

	September 30, 2009		
	Carrying Amount	Fair Value	Carry Amou
		(In Thousands)	
Financial assets:			
Cash and due from banks	$7,472	$7,472	
Interest bearing demand deposits	2,571	2,571	
Securities available for sale	81,638	81,638	
Securities held to maturity	6,433	6,500	
FHLB stock	2,002	2,002	
Loans, net	116,963	119,092	
Accrued interest receivable	1,353	1,353	
Financial liabilities:			

Deposits	160,147	161,313
Short-term borrowings	-	-
Long-term borrowings	37,172	37,460
Accrued interest payable	138	138
Off-balance sheet instruments:		
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 September 30, 2009 and December 31, 2008 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gro Unreal Loss
		(In Thousands)	
September 30 2009:			
Available for Sale:			
Equity securities	$ 9	$ 4	$
U.S. Government obligations	59,577	148	
Mortgage-backed securities - residential	21,597	387	
	$ 81,183	$ 539	$
Held to Maturity:			
Mortgage-backed securities - residential	$ 6,433	$ 90	$
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	$ -	$

Note 3 - Securities (continued)

Mortgage-backed securities consist of securities issued by FNMA, FHLMC, GNMA, and FFCB (Federal Farm Credit Bank) collateralized by residential mortgages.

The amortized cost and estimated fair value by contractual maturity of debt securities at September 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 Amortized Cost	Available for Sale Estimated Fair Value	Held t Amortize Cost
	(In Thousands)		(I
Due in one year or less	$ -	$ -	$ -
Due after one year through five years	2,500	2,502	-
Due after five years through ten years	17,544	17,559	-
Due after ten years	39,533	39,584	-
Mortgage-backed securities - residential	21,597	21,980	6,433
	$ 81,174	$ 81,625	$ 6,433

There was a gross $92,000 gain on sale of available for sale securities in the first nine months of 2009 resulting from proceeds of $5,355,000. There were no sales of securities available for sale for the nine months ended September 30, 2008.

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

Note 3 - Securities (continued)

	Less than 12 Months Fair Value	Less than 12 Months Gross Unrealized Losses	12 Months or More Fair Value	12 Months or More Gross Unrealized Losses
	(In Thousands)			
September 30, 2009:				
U.S. Government obligations	$ 3,527	$ 80	$ -	$ -
mortgaged-backed securities - residential	3,996	12	1,063	15
	$ 17,523	$ 92	$ 1,063	$ 15
December 31, 2008:				
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

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 September 30, 2009, ten debt securities have been in a continuous unrealized loss position for less than twelve months. No debt securities and two mortgage-backed securities have been in a continuous unrealized loss position for more than twelve months. The debt securities and mortgage-backed securities were issued by U.S. government sponsored agencies and are paying in accordance with their terms with no deferrals of interest or defaults. As management believes the Company does not intend to sell and will not be required to sell these securities prior to recovery or maturity, no declines are deemed to be other than temporary.

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.

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Management evaluates the FHLB stock for impairment in accordance with FASB ASC Topic 942-10-15, Financial Services - Depository and Lending. 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 September 30, 2009.

Note 5 - 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 loss.

The components of other comprehensive income (loss) and related tax effects for the three and nine months ended September 30, 2009 and 2008 are as follows:

	For the Three Months Ended September 30, 2009	2008	For the Se[...] 2009
	(In Thousands)		(I
Unrealized holding gain (loss) on available for sale securities	$ 768	$ (72)	$
Reclassification adjustment for realized gains included in net income	-	-	
Reclassification adjustment for impairment loss on available for sale securities	-	57	
Net Unrealized Gain (Loss)	768	(15)	
Tax effect	232	(7)	
Net of tax amount	$ 536	$ (8)	$

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 nine months ended September 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 they are committed to be released. The weighted average common shares outstanding were 1,724,649 for the three months ended September 30, 2009 and 1,723,781 for the nine months ended September 30, 2009 and 1,718,526 for the three and nine months ended September 30, 2008.

Note 7 - Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, "The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162," ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification TM ("Codification") as the source of authoritative generally accepted accounting principles ("GAAP") for nongovernmental entities. The Codification does not change GAAP. Instead, it takes the thousands of individual pronouncements that currently comprise GAAP and reorganizes them into approximately 90 accounting Topics, and displays all Topics using a consistent structure. Contents in each Topic are further organized first by Subtopic, then Section and finally Paragraph. The Paragraph level is the only level that contains substantive content. Citing particular content in the Codification involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure. FASB suggests that all citations begin with "FASB ASC," where ASC stands for Accounting Standards Codification. Changes to the ASC subsequent to June 30, 2009 are referred to as Accounting Standards Updates ("ASU").

In conjunction with the issuance of SFAS 168, the FASB also issued its first Accounting Standards Update No. 2009-1, "Topic 105 -Generally Accepted Accounting Principles" ("ASU 2009-1") which includes SFAS 168 in its entirety as a transition to the ASC. ASU 2009-1 is effective for interim and annual periods ending after September 15, 2009 and will not have an impact on the Company's financial position or results of operations but will change the referencing system for accounting standards.

Certain of the following pronouncements were issued prior to the issuance of the ASC and adoption of the ASUs. For such pronouncements, citations to the applicable Codification by Topic, Subtopic and Section are provided where applicable in addition to the original standard type and number.

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Note 7 - Recent Accounting Pronouncements (continued)

The FASB issued SFAS 166 (not yet reflected in FASB ASC), "Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140," ("SFAS 166") in June 2009. SFAS 166 limits the circumstances in which a financial asset should be derecognized when the transferor has not transferred the entire financial asset by taking into consideration the transferor's continuing involvement. The standard requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor's beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The concept of a qualifying special-purpose entity is removed from SFAS 140 along with the exception from applying FIN 46(R). The standard is effective for the first annual reporting period that begins after November 15, 2009, for interim periods within the first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company does not expect the standard to have any impact on the Company's consolidated financial statements.

The FASB issued ASU 2009-05, "Fair Value Measurements and Disclosures (Topic 820) - Measuring Liabilities at Fair Value" in August, 2009 to provide guidance when estimating the fair value of a liability. When a quoted price in an active market for the identical liability is not available, fair value should be measured using (a) the quoted price of an identical liability when traded as an asset; (b) quoted prices for similar liabilities or similar liabilities when traded as assets; or (c) another valuation technique consistent with the principles of Topic 820 such as an income approach or a market approach. If a restriction exists that prevents the transfer of the liability, a separate adjustment related to the restriction is not required when estimating fair value. The ASU was effective October 1, 2009 for the Company and will have no impact on consolidated financial position or operations.

Note 8 - Formation of Subsidiary

On August 14, 2009 the Board of Directors of Fairport Savings Bank approved through resolution the formation of a wholly-owned subsidiary to be known as FSB Mortgage Corp. to engage in the activities of residential lending. Applications have been submitted to the appropriate regulatory agencies and the bank is awaiting approval.

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 September 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 general economic conditions, either nationally or in our market areas, that are worse than expected; competition among depository and other financial institutions; inflation and changes in the interest rate environment

that reduce our margins or reduce the fair value of financial instruments; adverse changes in the securities markets; changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements; our ability to enter new markets successfully and capitalize on growth opportunities; our ability to successfully integrate acquired entities, if any; changes in consumer spending, borrowing and savings habits; changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board; changes in our organization, compensation and benefit plans; changes in our financial condition or results of operations that reduce capital available to pay dividends; and changes in the financial condition or future prospects of issuers of securities that we own, 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 Company follows accounting standard set by the Financial Accounting Standards Board, commonly referred to as the "FASB". The FASB sets generally accepted accounting principles ("GAAP") that the Company follows. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification, sometimes referred to as the Codification or ASC. The FASB finalized the Codification effective for periods ending on or after September 15, 2009.

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 consolidated 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 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 un-collectability 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. 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 (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

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Critical Accounting Policies (Continued)

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 September 30, 2009 and December 31, 2008

Total Assets. Total assets increased by $25.5 million, or 13.0%, to $221.7 million at September 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 a decrease in net loans receivable.

Cash and cash equivalents increased by $6.9 million, or 216.5% to $10.0 million at September 30, 2009 from $3.2 million at December 31, 2008.

Total securities increased by $36.9 million, or 72.0%, to $88.1 million at September 30, 2009 from $51.2 million at December 31, 2008. Securities classified as available for sale increased $37.7 million to $81.6 million at September 30, 2009 from $43.9 million at December 31, 2008. The $37.7 million increase was attributable to the purchase of $70.8 million of U.S. government agency securities, purchases of $8.8 million of mortgage-backed securities, and a $521,000 increase in the fair value of securities available for sale, partially offset by maturities and calls of $33.0 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, and $4.1 million in principal repayments received and amortization.

Securities classified as held to maturity decreased $856,000 to $6.4 million at September 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 September 30, 2009, and has determined that no other-than-temporary impairment exists in the portfolio.

Investment in FHLB of New York stock decreased by $310,000, or 13.4%, to $2.0 million at September 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 $18.7 million, or 13.8%, to $117.0 million at September 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 $12.7 million in the first nine months of 2009 and normal amortization. Total loans sold and serviced as of September 30, 2009 totaled $15.9 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 $20.1 million of residential mortgage loan originations in the first nine 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. In the current interest rate environment 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 $32.6 million, or 25.6%, to $160.1 million at September 30, 2009 from $127.5 million at December 31, 2008. Certificates of deposit, including IRAs, increased by $22.4 million. Transaction accounts, including checking, NOW, money market and savings accounts, increased by $10.2 million. The net deposit growth was attributable to the Webster branch growth of $14.1 million, Irondequoit branch growth of $6.7 million, Penfield branch growth of $7.9 million and Fairport branch growth of $3.9 million. We continue to promote core customer relationship banking, with bonus rates and incentive offerings.

Combined short and long term borrowings decreased by $8.3 million, or 18.3%, to $37.2 million at September 30, 2009 from $45.5 million on December 31, 2008. The decrease in borrowings included $3.9 million in short term borrowings and $4.4 million in long term borrowings. We repaid these borrowings in the first nine months of 2009 using increased deposits.

Stockholders' Equity. Total stockholders' equity increased by $433,000 or 2.2%, to $20.5 million at September 30, 2009 from $20.0 million at December 31, 2008. The increase resulted principally from increases of $373,000 in accumulated other comprehensive income and $44,000 in net income for the nine months ended September 30, 2009.

Non-Performing Assets. At September 30, 2009, the Company had $93,000 in loans classified as non-performing assets compared to $146,000 in loans classified as non-performing at December 31, 2008. At September 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 September 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.

	For the Three Months Ended September 30,				
	2009			2008	
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense
	(Dollars in thousands)				
Interest-earning assets:					
Loans........................	$ 117,379	$ 1,669	5.69%	$ 134,873	$ 1,962
Securities...................	52,972	415	3.13	29,211	350
Mortgage-backed securities....	27,468	264	3.84	24,997	288
Other........................	5,335	2	0.15	3,063	14
Total interest-earning assets	203,154	2,350	4.63%	192,144	2,614
Non-interest-earning assets...	4,625			5,554	
Total assets..............	$ 207,779			$ 197,698	

Interest-bearing liabilities:					
NOW accounts..................	$ 8,627	$ 13	0.60%	$ 7,776	$ 24
Passbook savings..............	15,827	26	0.66	14,248	32
Money market savings..........	22,787	88	1.54	11,860	57
Individual retirement accounts	17,857	161	3.61	16,339	177
Certificates of deposit.......	77,475	556	2.87	75,916	708
Borrowings....................	37,426	404	4.32%	44,838	465
Total interest-bearing liabilities.............	179,999	1,248	2.77%	170,977	1,463
Non-interest-bearing liabilities:					
Demand deposits.........	3,763			3,220	
Other.........................	3,877			3,671	
Total liabilities........	187,639			177,868	
Stockholders' equity..........	20,140			19,830	
Total liabilities and stockholders' equity.....	$ 207,779			$ 197,698	
Net interest income...........		$ 1,102			$ 1,151
Interest rate spread (1)......			1.86%		
Net interest-earning assets (2)	$ 23,155			$ 21,167	
Net interest margin (3).......		2.17%			2.40%
Average interest-earning assets to average interest-bearing liabilities...............	113%			112%	

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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 Nine Months Ended September 30,				
2009			2008	
Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense
(Dollars in thousands)				

Interest-earning assets:					
Loans........................	$ 124,995	$ 5,333	5.69 %	$ 28,300	$ 5,626
Securities...................	37,676	983	3.48	9,018	1,033
Mortgage-backed securities....	28,386	889	4.18	3,138	792
Other........................	5,771	5	0.12	5,055	104
Total interest-earning assets	196,828	7,210	4.88%	185,511	7,555
Non-interest-earning assets...	4,513			5,122	
Total assets..............	$ 201,341			$ 190,633	
Interest-bearing liabilities:					
NOW accounts.................	$ 8,118	$ 41	0.67%	$ 6,733	$ 51
Passbook savings.............	14,476	76	0.70	13,984	103
Money market savings.........	20,182	267	1.76	11,307	176
Individual retirement accounts	17,519	494	3.76	16,246	538
Certificates of deposit.......	75,369	1,708	3.02	75,456	2,337
Borrowings...................	38,703	1,235	4.25	40,774	1,274
Total interest-bearing liabilities.............	174,367	3,821	2.92%	164,500	4,479
Non-interest-bearing liabilities:					
Demand deposits.........	3,580			3,202	
Other........................	3,154			2,904	
Total liabilities........	181,101			170,606	
Stockholders' equity..........	20,240			20,027	
Total liabilities and stockholders' equity.....	$ 201,341			$ 190,633	
Net interest income..........		$ 3,389			$ 3,076
Interest rate spread (1)......			1.96%		
Net interest-earning assets (2)	$ 22,461			$ 21,011	
Net interest margin (3).......		2.30%			2.21%
Average interest-earning assets to average interest-bearing liabilities...............	113%			113%	

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

General. We had a net loss of $34,000 for the three months ended September 30, 2009 compared to net income of $1,000 for the three months ended September 30, 2008. The decrease of $35,000 in net income for the third quarter of 2009 compared to the third quarter of 2008 resulted primarily from a decrease in net interest income of $49,000, an increase in other expense of $88,000, partially offset by an increase in other income of $44,000, and a decrease in income tax expense of $57,000. The decrease in net interest income was the result of a volume reduction in higher yielding assets, mainly mortgages, being replaced by an increased volume of lower yielding assets, primarily investment securities, partially offset by the Company's ability to reduce the deposit costs in a low interest rate environment. The net interest margin decreased to 2.17% in the

third quarter of 2009 from 2.40% in the third quarter of 2008. Another factor that negatively affected the third quarter of 2009 compared to the third quarter of 2008 was an additional $74,000 in FDIC premium expense recorded in other expense.

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Interest and Dividend Income. Interest and dividend income decreased by $264,000 or 10.1%, to $2.3 million for the three months ended September 30, 2009 from $2.6 million for the three months ended September 30, 2008. The decrease in interest and dividend income resulted from a $293,000 or 14.9% decrease in interest income from loans, a $24,000 or 8.3% decrease in interest income from mortgage-backed securities, a $12,000 or 85.7% decrease in other interest income primarily interest earning demand accounts, partially offset by a $65,000 or 18.6% increase in securities income. Average interest-earning assets increased by $11.0 million, or 5.7%, to $203.2 million for the three months ended September 30, 2009 from $192.1 million for the three months ended September 30, 2008. The yield on interest-earning assets decreased by 81 basis points to 4.63% for the three months ended September 30, 2009 compared to 5.44% for the three months ended September 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 September 30, 2008 to a targeted Federal Fund rate range of 0.00% - 0.25% at September 30, 2009.

Interest Expense. Interest expense decreased $215,000 or 14.7%, to $1.2 million for the three months ended September 30, 2009 from $1.5 million for the three months ended September 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 $9.0 million, or 5.3%, to $180.0 million for the three months ended September 30, 2009 compared to $171.0 million for the three months ended September 30, 2008. The average cost of interest-bearing liabilities decreased by 65 basis points to 2.77% for the three months ended September 30, 2009 from 3.42% for the three months ended September 30, 2008. The average cost of deposit accounts decreased by 79 basis points to 2.37% for the three months ended September 30, 2009 compared to 3.16% for the three months ended September 30, 2008. The average cost of borrowings increased by 17 basis points to 4.32% for the three months ended September 30, 2009 compared to 4.15% for the three months ended September 30, 2008. The decrease in interest expense reflects the Bank's management of lower deposit costs in a historically low interest rate environment.

At September 30, 2009, we had $27.1 million of certificates of deposit, including IRAs that will mature during the fourth 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 decreased $49,000 or 4.3%, to $1.1 million for the three months ended September 30, 2009 from $1.2 million for the three months ended September 30, 2008. The decrease in net interest income was due primarily to an increase in lower yielding earning assets, partially offset by a lower average cost of deposits lowering the overall cost of interest bearing liabilities. The Company's net interest margin decreased 23 basis points to 2.17% for the three months ended September 30, 2009 from 2.40% for the three months ended September 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 $7,000 in provision for loan losses for the three month period ended September 30, 2009 compared to an $8,000 provision for loan losses for the three months ended

September 30, 2008. The allowance for loan losses as of September 30, 2009 was $360,000 or 0.31% of total loans, compared to $335,000 or 0.24% of total loans as of September 30, 2008. We ended the quarter with $93,000 in non-accrual loans as of September 30, 2009 compared to no non-accrual loans as of September 30, 2008. We recorded a $4,000 charge off in the third quarter of 2009 compared to no charge offs in the third quarter of 2008. We had no foreclosed real estate at September 30, 2009 or 2008.

Other Income. Total other income increased $44,000 or 49.4%, to $133,000 for the three months ended September 30, 2009 compared to $89,000 for the three months ended September 30, 2008. In the three months ended September 30, 2009, there was an increase of $19,000 in other income primarily from mortgage fees and gain on sale of mortgage loans in the secondary market and a $16,000 increase in service fee income in deposit account service charge fees, partially offset by a decrease of $48,000 in commissions from Oakleaf Services insurance/annuity and security sales. In the three months ended September 30, 2008, the Company recorded a $57,000 other-than-temporary impairment loss related to its investment in Freddie Mac common stock; there was no other-than-temporary impairment loss recorded in 2009.

Other Expense. Total other expense increased $88,000, or 7.4%, to $1.3 million for the three months ended September 30, 2009 compared to $1.2 million for the three months ended September 30, 2008. The increase was primarily the result of a $74,000 increase in FDIC insurance premium expense to $80,000 for the three months ended September 30, 2009, compared to $6,000 for the three months ended September 30, 2008. Advertising expense increased by $22,000, other expense increased by $23,000, occupancy expense increased by $12,000, and equipment expense increased by $8,000 primarily due to additional expenses associated with the new Webster branch that opened in the third quarter of 2009. The increase was partially offset by a decrease in salaries and benefits expense of $42,000 resulting from two management positions left vacant, and board approved reductions in year end incentive and discretionary pension contribution accruals in the third quarter of 2009 compared to the third quarter of 2008.

Income Tax Expense. We had pre-tax loss of $57,000 for the three months ended September 30, 2009 versus pre-tax income of $35,000 for the three months ended September 30, 2008, which resulted in a $23,000 tax benefit for the three months ended September 30, 2009, versus a $34,000 tax expense for the three months ended September 30, 2008, a change of $57,000. The effective tax benefit rate was 40.3% for the three months ended September 30, 2009 compared to a tax expense rate of 97.1% for the three months ended September 30, 2008 due to no tax benefit recognized as a result of the $57,000 other-than-impairment loss recorded in 2008 for tax purposes as a capital loss.

Comparison of Operating Results for the Nine Months Ended September 30, 2009 and September 30, 2008

General. We had net income of $44,000 for the nine months ended September 30, 2009 compared to a net loss of $95,000 for the nine months ended September 30, 2008. The $139,000 improvement was attributable to an increase in net interest income of $313,000, an increase in other income of $202,000, partially offset by an increase in other expenses of $331,000, a $7,000 increase in the provision for loan losses, and an increase in income tax of $38,000. The net interest income improvement was generated by an increase in interest-earning assets and the Company's ability to reduce the deposit costs in a low interest rate environment, both of which positively impacted the net interest margin in the first nine months of 2009 compared to the first nine months of 2008. Decreased short term interest rates have provided an opportunity to lower our costs on deposits at a faster rate than our interest earning assets, providing

positive results in our net interest margin. The net interest margin increased by 9 basis points to 2.30% for the nine months ended September 30, 2009 from 2.21% for the nine months ended September 30, 2008.

Interest and Dividend Income. Interest and dividend income decreased by $345,000 or 4.6% to $7.2 million for the nine months ended September 30, 2009 from $7.6 million for the nine months ended September 30, 2008. The $345,000 decrease in interest and dividend income resulted primarily from a $293,000 or 5.2% decrease in interest income from loans, a $50,000 or 4.8% decrease in interest income from securities, and a $99,000 or 95.2% decrease in interest income from other sources, partially offset by a $97,000 or 12.3% increase in mortgage-backed securities interest income. Average interest-earning assets increased by $11.3 million, or 6.1%, to $196.8 million for the nine months ended September 30, 2009 from $185.5 million for the nine months ended September 30, 2008. The yield on interest earning assets decreased by 55 basis points to 4.88% for the nine months ended September 30, 2009 compared to 5.43% for the nine months ended September 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 September 30, 2008.

Interest Expense. Interest expense decreased $658,000, or 14.7%, to $3.8 million for the nine months ended September 30, 2009 from $4.5 million for the nine months ended September 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 $9.9 million, or 6.0%, to $174.4. million for the nine months ended September 30, 2009 compared to $164.5 million for the nine months ended September 30, 2008. The average cost of interest-bearing liabilities decreased by 71 basis points to 2.92% for the nine months ended September 30, 2009 from 3.63% for the nine months ended September 30, 2008. The average cost of deposit accounts decreased by 91 basis points to 2.54% for the nine months ended September 30, 2009 compared to 3.45% for the nine months ended September 30, 2008. The average cost of borrowings increased by 8 basis points to 4.25% for the nine months ended September 30, 2009 compared to 4.17% for the nine months ended September 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 $313,000, or 10.2%, to $3.4 million for the nine months ended September 30, 2009 from $3.1 million for the nine months ended September 30, 2008. The increase in net interest income was due primarily to a decrease in the average cost of our interest-bearing liabilities of 71 basis points, while the average yield on our interest-earning assets decreased by 55 basis points. Our net interest margin increased by 9 basis points to 2.30% for the nine months ended September 30, 2009 from 2.21% for the nine months ended September 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 September 30, 2008 to September 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 $21,000 provision for loan losses for the nine month period ended September 30, 2009 compared to the $14,000 provision for loan losses for the nine month period ended September 30, 2008. Management believes we continue to maintain exceptional credit quality within our loan portfolio with one charge-off of $4,000 recorded within the first nine months of 2009. The allowance for loan losses as of September 30, 2009 was $360,000, or 0.31% of total loans, compared to $335,000, or 0.24% of total loans as of September 30, 2008. We had non-accrual loans totaling $93,000, or 0.08% of total loans receivable as of

September 30, 2009 compared to no non-accrual loans as of September 30, 2008.

Other Income. Total other income increased $202,000, or 64.3%, to $516,000 for the nine months ended September 30, 2009 compared to $314,000 for the nine months ended September 30, 2008. The primary increase was due to the Bank completing a sale of $5.3 million mortgage-backed securities on which it recorded a pre-tax gain on sale of securities of $92,000 in May 2009. We also had an increase of $40,000 in service fees resulting from an increase in checking account service charge fees and an $87,000 increase in other income which was primarily the result of mortgage fees, and gain on sale of fixed rate mortgages to Freddie Mac. The Company recorded a $57,000 other-than-temporary impairment loss on its available for sale securities in 2008, with no other-than-temporary impairment loss recorded in 2009. There was also a $74,000 reduction in fee income in the first nine months of 2009 compared to 2008 resulting from a decrease in Oakleaf subsidiary revenue.

Other Expense. Total other expense increased $331,000, or 9.5%, to $3.8 million for the nine months ended September 30, 2009 compared to $3.5 million for the nine months ended September 30, 2008. The increase was primarily the result of an additional $248,000 in FDIC premiums due to the $91,000 special

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assessment accrued in the second quarter and a $157,000 combined first, second and third quarter assessment at increased rates over the prior year. There was a $23,000 increase in salaries and benefits expense primarily due to annual cost of living raises effective January 1 of each year, additional expenses associated with new branch staffing, partially offset by savings in incentive and pension benefit accruals with a board approved expense reduction plan implemented in February 2009. In the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 there was also an increase in occupancy expense of $33,000, and an increase in equipment expense of $20,000, and an increase in other expense of $29,000 due to additional expenses associated with the new Webster branch, partially offset by $43,000 less in advertising expense due to a decrease in deposit product promotions.

Income Taxes. We had pre-tax net income of $62,000 for the nine months ended September 30, 2009 versus a pre-tax loss of $115,000 for the nine months ended September 30, 2008, which resulted in a $18,000 tax expense for the nine months ended September 30, 2009, versus a $20,000 tax benefit for the nine months ended September 30, 2008, a change of $38,000. The effective tax rate was 29.0% for the nine months ended September 30, 2009 compared to (17.4%) for the nine months ended September 30, 2008.

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 September 30, 2009, our liquidity ratio averaged 18.8%. We believe that we have enough sources of liquidity to satisfy our short and long-term liquidity needs as of September 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.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At September 30, 2009, cash and cash equivalents totaled $10.0 million.

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

At September 30, 2009, we had $2.8 million in loan commitments outstanding. In addition to commitments to originate loans, we had $7.9 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 September 30, 2009 totaled $73.9 million, or 74.3% of our certificates of deposit and 46.1% 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 September 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 September 30, 2009, we originated $6.8 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 $18.1 million for the quarter ended September 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.

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 $8.3 million to $37.2 million for the nine months ended September 30, 2009, compared to a net increase of $17.0 million to $42.6 million for the nine months ended September 30, 2008. Historically, Federal Home Loan Bank borrowings have primarily been used to fund loan demand and expanding the investment portfolio. At September 30, 2009, we had the ability to borrow approximately $87.8 million from the Federal Home Loan Bank of New York, of

which $37.2 million had been advanced.

Fairport Savings Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At September 30, 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. We follow the same credit policies in making commitments as we do for on-balance sheet instruments.

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

At September 30, 2009 and 2008, we had $2.8 million and $3.6 million, respectively, of commitments to grant loans, and $7.9 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.

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, and Quarterly Reports on Form 10-Q for the quarters ended March 31, 2009 and June 30, 2009, 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 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.

The FDIC Has Proposed A Rule That Would Require Us to Prepay Our Insurance Premiums

On September 29, 2009, the Federal Deposit Insurance Corporation issued a proposed rule pursuant to which all insured depository institutions would be required to prepay their estimated assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. Under the proposed rule, this pre-payment would be due on December 30, 2009. Under the proposed rule, the assessment rate

for the fourth quarter of 2009 and for 2010 would be based on each institution's total base assessment rate for the third quarter of 2009, modified to assume that the assessment rate in effect on September 30, 2009 had been in effect for the entire third quarter, and the assessment rate for 2011 and 2012 would be equal to the modified third quarter assessment rate plus an additional 3 basis points. In addition, each institution's base assessment rate for each period would be calculated using its third quarter assessment base, adjusted quarterly for an estimated 5% annual growth rate in the assessment base through the end of 2012. Based on our deposits and assessment rate at September 30, 2009, we estimate that our prepayment amount will be approximately $852,687. We expect that we will be able to make the prepayment from available cash on hand.

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 House Financial Services Committee has released a draft of proposed restructuring legislation that would implement sweeping changes to the current bank regulatory structure. The proposed legislation, developed in conjunction with the U.S. Treasury Department, would establish a Financial Services Oversight Council and merge our primary regulator, the Office of Thrift Supervision, into the Office of the Comptroller of the Currency, the primary federal regulator for national banks. The proposal also contemplates that a division of thrift supervision within the Office of the Comptroller of the Currency would regulate federal thrifts. The proposal, if adopted, also would subject FSB Community Bankshares, Inc. to be regulated as a bank holding company by the Federal Reserve Board.

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

None.

Item 5. Other Information

None.

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 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) 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.

SIGNATURES

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

FSB COMMUNITY BANKSHARES, INC.

Date:	November 13, 2009	/s/ Dana C. Gavenda ------------------------------------ Dana C. Gavenda President and Chief Executive Officer
Date:	November 13, 2009	/s/ Kevin D. Maroney ------------------------------------ Kevin D. Maroney Executive Vice President and Chief Financial Officer