FSB Community Bankshares Inc
Form 10-Q
May 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 March 31, 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 May 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
March 31, 2009 and December 31, 2008 (unaudited)
(Dollars in thousands, except per share data)

Assets	March 31, 2009
Cash and due from banks	$ 3,453
Interest-earning demand deposits	3,151
Cash and Cash Equivalents	6,604
Securities available for sale	51,114
Securities held to maturity (fair value 2009 - $7,074, 2008 - $7,091)	7,100
Investment in FHLB stock	1,990
Loans receivable, net of allowance for loan losses of: 2009 - $350, 2008 - $345	128,640
Accrued interest receivable	1,006
Premises and equipment, net	2,264
Other assets	649
Total Assets	$ 199,367
Liabilities & Stockholders' Equity	
Deposits:	
Non-interest-bearing	$ 3,326
Interest-bearing	135,069
Total Deposits	138,395
Short-term borrowings	-
Long-term borrowings	38,318
Advances from borrowers for taxes and insurance	1,437
Other liabilities	828
Total Liabilities	178,978

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	7,283
Retained earnings	13,300
Accumulated other comprehensive income (loss)	248
Unearned ESOP shares - at cost	(621)
Total Stockholders' Equity	20,389
Total Liabilities and Stockholders' Equity	$ 199,367

See accompanying notes to consolidated financial statements

FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Operations
Three Months Ended March 31, 2009 and 2008 (unaudited)
(Dollars in thousands, except per share data)

	2009
Interest and Dividend Income	
Loans	$ 1,907
Securities - taxable	267
Mortgage-backed securities	326
Other	1
Total Interest and Dividend Income	2,501
Interest expense	
Deposits	879
Borrowings:	
Short-term	1
Long-term	424
Total Interest Expense	1,304
Net Interest Income	1,197
Provision for Loan Losses	6
Net Interest Income After Provision for Loan Losses	1,191
Other Income	
Service fees	49
Fee income	11

Other	74	
Total Other Income	134	
Other Expenses		
Salaries and employee benefits	693	
Occupancy expense	125	
Data processing costs	23	
Advertising	32	
Equipment expense	90	
Electronic banking	20	
Directors' fees	28	
Mortgage fees and taxes	44	
Other expense	191	
Total Other Expenses	1,246	
Income (Loss) Before Income Taxes	79	
Provision (Benefit) for Income Taxes	28	
Net Income (Loss)	$ 51	$
Earnings (Loss) per common share	$ 0.03	$

See accompanying notes to consolidated financial statements

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FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Stockholders' Equity
Three Months Ended March 31, 2009 and 2008 (unaudited)
(Dollars in thousands)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Balance - January 1, 2008	$ 179	$ 7,293	$ 13,224	$ 118
Comprehensive loss:				
Net loss	-	-	(106)	-
Change in net unrealized gain (loss) on securities available for sale, net of taxes	-	-	-	(4
Total Comprehensive Loss				

ESOP shares committed to be released	-	(2)	-	-
Balance - March 31, 2008	$ 179	$ 7,291	$ 13,118	$ 114
Balance - January 1, 2009	$ 179	$ 7,286	$ 13,249	$ (43
Comprehensive income:				
Net income	-	-	51	-
Change in net unrealized gain (loss) on securities available for sale, net of taxes	-	-	-	291
Total Comprehensive Income				
ESOP shares committed to be released	-	(3)	-	-
Balance - March 31, 2009	$ 179	$ 7,283	$ 13,300	$ 248

See accompanying notes to consolidated financial statements

FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Cash Flows
Three Months Ended March 31, 2009 and 2008 (unaudited)
(Dollars in thousands)

	2009
Cash Flows From Operating Activities	
Net Income (Loss)	$ 51
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Net amortization of premiums and discounts on investments	59
Gain on sale of loans	(29)
Amortization of net deferred loan origination fees	6
Depreciation and amortization	67
Provision for loan losses	6
Expense related to stock-based compensation plans	6
Deferred income tax benefit	(13)
Decrease (increase) in accrued interest receivable	26
Increase in other assets	(269)
Decrease in other liabilities	(253)
Net Cash Used By Operating Activities	(343)

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	188
Purchase of securities available for sale	(16,427)
Proceeds from maturities and calls of securities available for sale	8,835
Proceeds from principal paydowns of securities available for sale	794
Net increase (decrease) in loans	2,302
Proceeds from sales of loans	4,788
(Purchase) redemption of Federal Home Loan Bank stock	322
Purchase of premises and equipment	(23)
Net Cash Provided (Used) By Investing Activities	779
Cash Flows From Financing Activities	
Net increase in deposits	10,873
Net decrease in short-term borrowings	(3,850)
Proceeds from long-term borrowings	-
Repayments on borrowings	(3,313)
Net decrease in advances from borrowers for taxes and insurance	(715)
Net Cash Provided By Financing Activities	2,995
Net Increase (Decrease) in Cash and Cash Equivalents	3,431
Cash and Cash Equivalents- Beginning	3,173
Cash and Cash Equivalents- End	$ 6,604

FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Cash Flows, (Continued)

	2009	2008
Supplementary Cash Flows Information		
Interest paid	$ 1,294	$ 1,462
Income taxes paid	$ 85	$ -

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 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 months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

The consolidated financial statements at March 31, 2009 and December 31, 2008 and for the three months ended March 31, 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.

Note 2-Fair Value Accounting

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

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, Fair Value Measurements ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements.

Note 2-Fair Value Accounting (Continued)

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are as follows:

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

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

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

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

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

(Dollars in Thousands)

Securities available for sale	Total	Level 1	Level 2	Level
December 31, 2008	$ 43,925	$ 6	$ 43,919	$
March 31, 2009	$ 51,114	$ 6	$ 51,108	$

The fair value of securities available for sale 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). The Company had no Level 3 investment securities at December 31, 2008 and March 31, 2009.

Securities are evaluated periodically to determine whether a decline in their fair value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is

permanent, but indicates that the prospect for a near-term recovery of value is not necessarily favorable. Once a decline in fair value is determined to be other than temporary the cost basis of the security is reduced through a charge to earnings in the consolidated statement of income.

Note 3-Recent Accounting Pronouncements

FSP FAS 157-4

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

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

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

This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company is currently reviewing the effect this new pronouncement will have on its consolidated financial statements.

FSP FAS 115-2 and FAS 124-2

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment. Previously, this assessment required management to assert it has

both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing an other-than-temporary impairment. This change does not affect the need to forecast recovery of the value of the security through either cash flows or market price.

In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, FSP FAS 115-2 and FAS 124-2 changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

Note 3-Recent Accounting Pronouncements (Continued)

This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company is currently reviewing the effect this new pronouncement will have on its consolidated financial statements.

FSP FAS 107-1 and APB 28-1

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

This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company is currently reviewing the effect this 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 months ended March 31, 2009 and 2008 are as follows:

	For the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008
Unrealized holding gain (loss) on securities available for sale	$ 449	$ (6)
Tax effect	158	(2)
Net of tax amount	$ 291	$ (4)

Note 5- 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 months ended March 31, 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 released. The average common shares outstanding were 1,722,900 for the three months ended March 31, 2009 and 1,718,526 for the three months ended March 31, 2008.

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 March 31, 2009, FSB Community Bankshares, MHC the Company's mutual holding company parent, held 946,050 shares, or 53.0%, of the Company's common stock, engaged in no significant activities, and was not included in the MD&A.

Forward Looking Statements

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

from any opinions or statements expressed with respect to future periods in any current statements.

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

Critical Accounting Policies

The most significant accounting policies followed by the Company are presented in Note 1 to the consolidated financial statements ("the Consolidated Financial Statements") included in the Company's Annual Report filed on Form 10-K with the Securities and Exchange Commission on March 31, 2009. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the consolidated financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions and estimates underlying those amounts, management has identified the determination of the allowance for loan losses and the evaluation of investment securities for other that 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.

Critical Accounting Policies (Continued)

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. Declines in fair value of securities held to maturity and available for sale below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings.

Comparison of Financial Condition at March 31, 2009 and December 31, 2008

Total Assets. Total assets increased by $3.3 million, or 1.6%, to $199.4 million at March 31, 2009 from $196.1 million at December 31, 2008. The increase in total assets primarily reflects increases in securities classified as available for sale and cash and cash equivalents, partially offset by decreases in net loans receivable.

Cash and cash equivalents increased by $3.4 million, or 108.1% to $6.6 million at March 31, 2009 from $3.2 million at December 31, 2008.

Total securities increased by $7.0 million, or 13.7%, to $58.2 million at March 31, 2009 from $51.2 million at December 31, 2008. The securities classified as available for sale increased $7.2 million to $51.1 million at March 31, 2009 from $43.9 million at December 31, 2008. The increase was attributable to the purchase of $15.0 million of United States government agency securities, purchases of $1.4 million of mortgage-backed securities, and a $449,000 increase in the fair value of securities available for sale,

Comparison of Financial Condition at March 31, 2009 and December 31, 2008

(Continued)

partially offset by maturities of $8.8 million of United States Government agency securities classified as available for sale, and $851,000 in principal payments received. Securities classified as held to maturity decreased $189,000 to $7.1 million at March 31, 2009 from $7.3 million at December 31, 2008 as a result of $189,000 in principal payments received from mortgage-backed securities. All securities purchased in 2009 have been classified as securities available for sale. Management made the decision to classify all newly purchased securities as available for sale providing a portfolio of marketable securities for liquidity as an alternative to borrowings.

Investment in FHLB of New York stock decreased by $322,000 through redemption, or 13.9% to $2.0 million at March 31, 2009, from $2.3 million at December 31, 2008. The FHLB of New York requires members to purchase and redeem stock based on the level of borrowings.

Net loans receivable decreased by $7.1 million, or 5.2%, to $128.6 million at March 31, 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 $4.8 million in the first quarter of 2009. Total loans sold and serviced as of March 31, 2009 totaled $9.3 million compared to $5.4 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 $5.9 million of residential mortgage loan originations in the first quarter of 2009. Loans are not originated with the intention of being sold. We may experience further declines in our total residential mortgages loan portfolio with additional mortgage loan sales based on the current economic conditions and our desired interest rate sensitivity position. As the interest rate market changes throughout the remainder of 2009, we intend to continue to sell a portion of our fixed-rate residential mortgage loans on a servicing retained basis, recording gain on sales and 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 $10.9 million, or 8.5%, to $138.4 million at March 31, 2009 from $127.5 million at December 31, 2008. Certificates of deposit, including IRAs, increased by $6.3 million. Transaction accounts, including checking, NOW, money market and savings accounts, increased by $4.6 million. The net deposit growth was attributable to the Irondequoit branch growth of $4.7 million, Penfield branch growth of $5.1 million and Fairport branch growth of $1.1 million. We continue to promote core customer relationship banking, with bonus rates and incentive offerings.

Combined short and long term borrowings decreased by $7.2 million, or 15.7%, to $38.3 million at March 31, 2009 from $45.5 million on December 31, 2008. The decrease in borrowings included $3.9 million in short term borrowings and $3.3 million in long term borrowings. We were able to pay off these borrowings in the first quarter of 2009 through deposit growth within the same time period.

Stockholders' Equity. Total stockholders' equity increased by $348,000 or

1.7%, to $20.4 million at March 31, 2009 from $20.0 million at December 31, 2008. The increase resulted principally from net income of $51,000 for the three months ended March 31, 2009, and a $291,000 increase in accumulated other comprehensive income.

Non-Performing Assets. At March 31, 2009, the Company had $133,000 in loans classified as non-performing assets compared to $146,000 in loans classified as non-performing at December 31, 2008.

At March 31, 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 March			
	2009			
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance
	(Dollars in thousands)			
Interest-earning assets:				
Loans............................	$ 133,281	$ 1,907	5.72%	$ 122,96
Securities.......................	24,528	267	4.35	26,466
Mortgage-backed securities........	28,905	326	4.51	17,668
Other............................	2,232	1	0.18	8,915
Total interest-earning assets...	188,946	2,501	5.29	176,011
Non-interest-earning assets.......	6,407			4,987
Total assets..................	$ 195,353			$ 180,998
Interest-bearing liabilities:				
NOW accounts.....................	$ 7,517	$ 15	0.80%	$ 5,669
Passbook savings.................	13,467	26	0.77	13,461
Money market savings.............	17,363	94	2.17	10,851
Individual retirement accounts....	16,989	166	3.91	16,122
Certificates of deposit..........	73,059	578	3.16	74,082
Borrowings.......................	40,782	425	4.17	35,363

Total interest-bearing liabilities.................	169,177	1,304	3.08	155,548
Non-interest-bearing liabilities:				
Demand deposits..................	3,422			3,083
Other............................	2,531			2,255
Total liabilities...............	175,130			160,886
Stockholders' equity..............	20,223			20,112
Total liabilities and stockholders' equity.........	$ 195,353			$ 180,998
Net interest income..............		$ 1,197		
Interest rate spread (1)..........			2.21%	
Net interest-earning assets (2)...	$ 19,769			$ 20,463
Net interest margin (3)...........			2.53%	
Average interest-earning assets to average interest-bearing liabilities.....................	112%			113

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

Comparison of Operating Results for the Three Months Ended March 31, 2009 and March 31, 2008

General. We had net income of $51,000 for the three months ended March 31, 2009 compared to a net loss of $106,000 for the three months ended March 31, 2008. The increase of $157,000 in net income (loss) for the first quarter of 2009 compared to the first quarter of 2008 resulted primarily from an increase in net interest income of $311,000, an increase in other income of $40,000, partially offset by an increase in provision for loan losses of $6,000, an increase in other expenses of $102,000, and an increase in income taxes of $86,000. The increase in net interest income was the result of an increase in higher yielding interest earning assets and the Company's ability to reduce the deposit costs in a low interest rate environment, all of which positively impacted the net interest margin, increasing the margin to 2.53% in the first quarter of 2009 compared to a 2.01% net interest margin in the first quarter of 2008. The Federal Reserve Bank has lowered its target Federal Funds Rate from 2.25% at March 31, 2008 to 0.25% at March 31, 2009. Decreased short term

interest rates have lowered our costs on deposits and borrowings at a faster rate than our loans and investments, providing positive results in our net interest margin and profitability year over year. The decrease in both prime rate and treasury rates will continue to have a downward effect on yields in both interest-earning assets and interest bearing liabilities in the second quarter of 2009.

Interest and Dividend Income. Interest and dividend income increased by $95,000 or 3.9%, to $2.5 million for the three months ended March 31, 2009 from $2.4 million for the three months ended March 31, 2008. The increase in interest and dividend income resulted from a $90,000 or 5.0%, increase in interest income from loans, a $124,000 or 61.4% increase in interest income from mortgage-backed securities, offset by a $46,000 or 14.7%, decrease in interest income from securities, and a $73,000 or 98.6% decrease in other interest income, primarily interest earning demand accounts. Average interest-earning assets increased by $12.9 million, or 7.3%, to $188.9 million for the three months ended March 31, 2009 from $176.0 million for the three months ended March 31, 2008. The yield on interest-earning assets decreased by 18 basis points to 5.29% for the three months ended March 31, 2009 compared to 5.47% for the three months ended March 31, 2008, reflecting the effect of the 200 basis point drop in interest rates by the Federal Reserve since March 31, 2008.

Interest Expense. Interest expense decreased $216,000 or 14.2%, to $1.3 million for the three months ended March 31, 2009 from $1.5 million for the three months ended March 31, 2008. The decrease in interest expense resulted from an increase in the average balances in interest-bearing liabilities which was mitigated by the lower rates paid on these liabilities. The average balance of interest-bearing liabilities increased $13.7 million, or 8.8%, to $169.2 million for the three months ended March 31, 2009 compared to $155.5 million for the three months ended March 31, 2008. The average cost of interest-bearing liabilities decreased by 83 basis points to 3.08% for the three months ended March 31, 2009 from 3.91% for the three months ended March 31, 2008. The average cost of deposit accounts decreased by 106 basis points to 2.74% for the three months ended March 31, 2009 compared to 3.80% for the three months ended March 31, 2008. The average cost of borrowings decreased by 11 basis points to 4.17% for the three months ended March 31, 2009 compared to 4.28% for the three months ended March 31, 2008. The decrease in interest expense reflects a lower cost of funds on deposits and borrowings in a lower interest rate environment.

At March 31, 2009, we had $16.5 million of certificates of deposit, including IRAs that will mature during the second quarter of 2009 with a weighted average cost of 2.87%. Based on current market rates, if these funds remain with Fairport Savings Bank with similar maturities, the rates paid on these deposits will decrease.

Net Interest Income. Net interest income increased $311,000 or 35.1%, to $1.2 million for the three months ended March 31, 2009 from $886,000 for the three months ended March 31, 2008. The increase in net interest income was due primarily to an increase in higher yielding interest earning assets and decreasing deposit and borrowing costs at a faster rate than loan and investment securities. The Company's net interest margin increased 52 basis points to 2.53% for the three months ended March 31,

2009 from 2.01% for the three months ended March 31, 2008. The increase in net interest margin was also attributable to the effect of a decrease of 200 basis

points in short term rates by the Federal Reserve from March 31, 2008 to March 31, 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 $6,000 in provision for loan losses for the three month period ended March 31, 2009 compared to no provision for loan losses for the three months ended March 31, 2008. The allowance for loan losses as of March 31, 2009 was $350,000 or 0.27% of total loans, compared to $321,000 or 0.26% of total loans as of March 31, 2008. We ended the quarter with $133,000 in non-accrual loans as of March 31, 2009 compared to no non-accrual loans as of March 31, 2008. We had no foreclosed real estate at the end of the first quarter of 2009 or 2008.

Other Income. Total other income increased $40,000 or 42.6%, to $134,000 for the three months ended March 31, 2009 compared to $94,000 for the three months ended March 31, 2008. In the three months ended March 31, 2009, there was an increase of $33,000 in other income primarily due to mortgage fees and gain on sale of mortgage loans to Freddie Mac. There was also an $11,000 increase in service fee income in checking account service charge fees associated with the courtesy overdraft protection at point of sale and ATM's, partially offset by a decrease of $4,000 in commissions from Oakleaf Services insurance/annuity and security sales.

Other Expense. Other expense increased $102,000, or 8.9%, to $1.2 million for the three months ended March 31, 2009 compared to $1.1 million for the three months ended March 31, 2008. The increase was primarily the result of an increase of $56,000 in salaries and benefits expense mainly due to annual raises effective January 1 of each year, and $34,000 in other expenses primarily due to an increase of $19,000 in our FDIC insurance premiums and $11,000 in additional costs associated with operating as a public company. The FDIC insurance expenses increased partly due to the FDIC finalizing a rule in December 2008 that raised the current assessment rate by 7 basis points for the first quarter of 2009 assessment. The increase in deposit insurance expense during the first quarter of 2009 compared to the first quarter of 2008 was also partly related to the Company's utilization of available credits to offset assessments during the first quarter of 2008. These actions will continue to increase the Company's non-interest expenses for the remainder of 2009 and in future years as long as the increased premiums are in place.

Income Tax Expense/Benefit. We had pre-tax income of $79,000 for the three months ended March 31, 2009 versus a pre-tax loss of $164,000 for the three months ended March 31, 2008, which resulted in a $28,000 tax expense for the three months ended March 31, 2009, versus a $58,000 tax benefit for the three months ended March 31, 2008, a change of $86,000. The effective tax rate was 35.4% for the three months ended March 31, 2009 compared to (35.4)% for the three months ended March 31, 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 March 31, 2009, our liquidity ratio averaged 18.4%. We believe that we have enough sources

of liquidity to satisfy our short and long-term liquidity needs as of March 31, 2009.

Liquidity and Capital Resources (Continued)

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 March 31, 2009, cash and cash equivalents totaled $6.6 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 March 31, 2009, we had $4.5 million in loan commitments outstanding. In addition to commitments to originate loans, we had $7.5 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 March 31, 2009 totaled $59.8 million, or 63.9% of our certificates of deposit and 43.2% 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 March 31, 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 March 31, 2009, we originated $5.9 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 $10.9 million for the quarter ended March 31, 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 $7.2 million to $38.3 million for the three months ended March 31, 2009, compared to a net increase of $17.3 million to $42.9 million for the three months ended March 31, 2008. Federal Home Loan Bank borrowings have primarily been used to fund loan demand and expanding the investment portfolio. At March 31, 2009, we had the ability to borrow approximately $100.5 million from the Federal Home Loan Bank of New York, of which $38.3 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

Liquidity and Capital Resources (Continued)

risk categories. At March 31, 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 March 31, 2009 and 2008, we had $4.5 million and $4.6 million, respectively, of commitments to grant loans, and $7.5 million and $7.6 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

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

Not applicable

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 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: May 13, 2009

/s/ Dana C. Gavenda

Dana C. Gavenda
President and Chief Executive Officer

Date: May 13, 2009

/s/ Kevin D. Maroney

Kevin D. Maroney
Executive Vice President and
Chief Financial Officer