FSB Community Bankshares Inc
Form 10-Q
August 14, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

OR

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _______________ to ______________________

Commission File No. 001-52751

FSB Community Bankshares, Inc.
(Exact name of registrant as specified in its charter)

United States (State or other jurisdiction of incorporation or organization)	74-3164710 (I.R.S. Employer Identification Number)
45 South Main Street, Fairport, New York (Address of Principal Executive Offices)	14450 Zip Code

(585) 223-9080
(Registrant's telephone number)

N/A
(Former name or former address, if changed since last report)

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 o.

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 x NO o.

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 o Accelerated filer o Non-accelerated filer o 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 o NO x

As of August 14, 2012 there were 1,785,000 shares of the Registrant's common stock, par value $0.10 per share, outstanding, 946,050 of which were held by FSB Community Bankshares, MHC, the Registrant's mutual holding company.

FSB Community Bankshares, Inc.
FORM 10-Q

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Part I. Financial Information

Item 1. Consolidated Financial Statements

FSB COMMUNITY BANKSHARES, INC.

Consolidated Balance Sheets
June 30, 2012 and December 31, 2011 (unaudited)
(Dollars in thousands, except share data)

	June 30, 2012	December 31, 2011
Assets		
Cash and due from banks	$1,194	$799
Interest-earning demand deposits	7,089	8,238
Cash and Cash Equivalents	8,283	9,037
Securities available for sale	50,811	68,410
Securities held to maturity (fair value 2012 $7,427; 2011 $7,499)	7,113	7,230
Investment in FHLB stock	1,400	1,401
Loans held for sale	2,307	1,535
Loans receivable, net of allowance for loan losses (2012 $411; 2011 $411)	137,665	126,742
Bank owned life insurance	3,320	3,265
Accrued interest receivable	694	884
Premises and equipment, net	3,430	3,654
Prepaid FDIC premium	368	437
Other assets	866	656
Total Assets	$216,257	$223,251
Liabilities & Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest-bearing	$4,786	$4,523
Interest-bearing	163,657	170,579
Total Deposits	168,443	175,102
Borrowings	23,623	24,178
Advances from borrowers for taxes and insurance	2,514	2,059
Official bank checks	536	342
Other liabilities	524	727
Total Liabilities	195,640	202,408
Stockholders' Equity		
	-	-

Preferred Stock- no par value- 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	179
Additional paid-in-capital	7,257	7,262
Retained earnings	13,363	13,465
Accumulated other comprehensive income	325	462
Unearned ESOP shares – at cost	(507)	(525)
Total Stockholders' Equity	20,617	20,843
Total Liabilities and Stockholders' Equity	$216,257	$223,251

See accompanying notes to consolidated financial statements

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FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Income
Three Months Ended June 30, 2012 and 2011 (unaudited)
(Dollars in thousands, except per share data)

	2012	2011
Interest and Dividend Income		
Loans	$1,602	$1,520
Securities – taxable	156	243
Securities – tax exempt	14	12
Mortgage-backed securities	114	215
Other	1	2
Total Interest and Dividend Income	1,887	1,992
Interest Expense		
Deposits	377	461
Borrowings	180	224
Total Interest Expense	557	685
Net Interest Income	1,330	1,307
Provision for Loan Losses	7	7
Net Interest Income After Provision for Loan Losses	1,323	1,300
Other Income		
Service fees	50	44
Fee income	8	6
Realized gain on sale of securities	42	24
Bank owned life insurance income	27	31
Realized gain on sale of loans	228	79
Mortgage fee income	155	41
Other	39	38
Total Other Income	549	263
Other Expense		
Salaries and employee benefits	996	828
Occupancy expense	217	183
Data processing costs	32	22
Advertising	56	54
Equipment expense	159	115
Electronic banking	15	24
Directors’ fees	29	35
Mortgage fees and taxes	118	37
FDIC premium expense	38	74
Audit and taxes	18	32
Other expense	192	154
Total Other Expense	1,870	1,558

Income Before Income Taxes	2	5
Benefit for Income Taxes	(9)	(11)
Net Income	$11	$16
Earnings per common share	$0.01	$0.01

See accompanying notes to consolidated financial statements

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FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Income
Six Months Ended June 30, 2012 and 2011 (unaudited)
(Dollars in thousands, except per share data)

	2012	2011
Interest and Dividend Income		
Loans	$3,182	$3,044
Securities – taxable	330	507
Securities – tax exempt	29	24
Mortgage-backed securities	306	455
Other	3	4
Total Interest and Dividend Income	3,850	4,034
Interest Expense		
Deposits	824	966
Borrowings	390	453
Total Interest Expense	1,214	1,419
Net Interest Income	2,636	2,615
Provision for Loan Losses	15	15
Net Interest Income After Provision for Loan Losses	2,621	2,600
Other Income		
Service fees	97	88
Fee income	33	9
Realized gain on sale of securities	308	24
Bank owned life insurance income	55	61
Realized gain on sale of loans	355	125
Mortgage fee income	241	96
Other	72	68
Total Other Income	1,161	471
Other Expense		
Salaries and employee benefits	1,977	1,683
Occupancy expense	433	356
Data processing costs	53	49
Advertising	120	97
Equipment expense	310	240
Electronic banking	26	46
Directors' fees	61	67
Mortgage fees and taxes	187	92
FDIC premium expense	76	144
Audit and taxes	46	66
FHLB prepayment penalty	268	-
Other expense	407	315
Total Other Expense	3,964	3,155

Loss Before Income Taxes	(182)	(84)
Benefit for Income Taxes	(80)	(54)
Net Loss	$(102)	$(30)
Loss per common share	$(0.06)	$(0.02)

See accompanying notes to consolidated financial statements

FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Comprehensive Income
Three Months Ended June 30, 2012 and 2011 (unaudited)
(Dollars in thousands)

	2012	2011
Other Comprehensive Income (Loss) Net of Tax		
Net unrealized gains (losses) for the period on available for sale securities	$(5)	$648
Reclassification adjustment for realized gains included in net income	(42)	(24)
Other Comprehensive Income (Loss), Before Tax	(47)	624
Income Tax Expense (Benefit) Related to Other Comprehensive Income (Loss)	(16)	212
Other Comprehensive Income (Loss), Net of Tax	(31)	412
Net Income	11	16
Comprehensive Income (Loss)	$(20)	$428

See accompanying notes to consolidated financial statements

FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Comprehensive Income
Six Months Ended June 30, 2012 and 2011 (unaudited)
(Dollars in thousands)

	2012	2011
Other Comprehensive Income (Loss) Net of Tax		
Net unrealized gains for the period on available for sale securities	$101	$301
Reclassification adjustment for realized gains included in net income(loss)	(308)	(24)
Other Comprehensive Income (Loss), Before Tax	(207)	277
Income Tax Expense (Benefit) Related to Other Comprehensive Income (Loss)	(70)	94
Other Comprehensive Income (Loss), Net of Tax	(137)	183
Net Loss	(102)	(30)
Comprehensive Income (Loss)	$(239)	$153

See accompanying notes to consolidated financial statements

FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Stockholders' Equity
Six Months Ended June 30, 2012 and 2011 (unaudited)
(Dollars in thousands)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned ESOP Shares	Total
Balance – January 1, 2011	$179	$7,269	$13,537	$ 67	$(560)	$20,492
Comprehensive income:						
Net loss	-	-	(30)	-	-	(30)
Other comprehensive income, net of tax	-	-	-	183	-	183
Total Comprehensive Income						153
ESOP shares committed to be released (1,749 shares)	-	(2)	-	-	18	16
Balance – June 30, 2011	$179	$7,267	$13,507	$ 250	$(542)	$20,661
Balance – January 1, 2012	$179	$7,262	$13,465	$ 462	$(525)	$20,843
Comprehensive loss:						
Net loss	-	-	(102)	-	-	(102)
Other comprehensive loss, net of tax	-	-	-	(137)	-	(137)
Total Comprehensive Loss						(239)
ESOP shares committed to be released (1,749 shares)	-	(5)	-	-	18	13
Balance – June 30, 2012	$179	$7,257	$13,363	$ 325	$(507)	$20,617

See accompanying notes to consolidated financial statements

FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Cash Flows
Six Months Ended June 30, 2012 and 2011 (unaudited)
(Dollars in thousands)

	2012	2011
Cash Flows From Operating Activities		
Net loss	$(102)	$(30)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Net amortization of premiums and discounts on investments	386	369
Gain on sale of securities	(308)	(24)
Gain on sale of loans	(355)	(125)
Proceeds from loans sold	10,076	941
Loans originated for sale	(10,493)	(1,353)
Amortization of net deferred loan origination costs	19	7
Amortization of premium on FHLB advances	100	100
FHLB prepayment penalty	268	-
Depreciation and amortization	266	198
Provision for loan losses	15	15
Expense related to ESOP	13	16
Deferred income tax benefit	(100)	(70)
Earnings on investment in bank owned life insurance	(55)	(61)
Decrease (increase) in accrued interest receivable	190	(18)
Decrease in prepaid FDIC premium	69	135
Increase in other assets	(210)	(20)
Decrease in other liabilities	(33)	(70)
Net Cash Provided (Used) By Operating Activities	(254)	10
Cash Flows From Investing Activities		
Purchases of securities available for sale	(23,912)	(18,621)
Proceeds from maturities and calls of securities available for sale	25,819	18,630
Proceeds from sales of securities available for sale	10,879	1,413
Proceeds from principal paydowns on securities available for sale	4,535	4,034
Purchases of securities held to maturity	-	(434)
Proceeds from principal paydowns on securities held to maturity	110	400
Net increase in loans	(10,957)	(2,770)
Redemption of FHLB stock	1	61
Purchase of premises and equipment	(42)	(256)
Net Cash Provided By Investing Activities	6,433	2,457
Cash Flows From Financing Activities		
Net decrease in deposits	(6,659)	(182)
Proceeds from borrowings	9,500	4,000
Repayments on borrowings and prepayment penalty	(10,423)	(5,627)
Net increase in advances from borrowers for taxes and insurance	455	361
Net increase in official bank checks	194	94
Net Cash Used By Financing Activities	(6,933)	(1,354)

Net Increase (Decrease) in Cash and Cash Equivalents	(754)	1,113
Cash and Cash Equivalents- Beginning	9,037	7,834
Cash and Cash Equivalents- Ending	$8,283	$8,947

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FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Cash Flows, (Continued)

	2012	2011
Supplementary Cash Flows Information		
Interest paid	$1,228	$1,428
Income taxes paid	$-	$-

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Note 1-Basis of Presentation

The accompanying unaudited consolidated financial statements of FSB Community Bankshares, Inc. and its wholly owned subsidiary 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 preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses, the evaluation of other-than-temporary impairment of investment securities, and the valuation of deferred tax assets. For additional information and disclosures required under GAAP, reference is made to the Company’s Annual Report on Form 10-K for the period ended December 31, 2011 filed with the Securities and Exchange Commission (“SEC”) on March 28, 2012.

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, 2011, included in the Form 10-K filed with the SEC on March 28, 2012.

Operating results for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The consolidated financial statements at June 30, 2012 and December 31, 2011 and for the three and six months ended June 30, 2012 and 2011 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. Such reclassifications had no impact on net income (loss) or stockholders’ equity.

The Bank completed its conversion from a federally-chartered stock savings bank to a New York State-chartered savings bank effective June 29, 2012. As a result of the conversion the bank will be regulated by New York State’s Department of Financial Services and by the Federal Deposit Insurance Corporation (“FDIC”).

The Company has evaluated subsequent events through the date these 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.

Note 2--Fair Value Measurement and Disclosure (Continued)

A fair value hierarchy that prioritizes the inputs to valuation methods is 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 are as follows:

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

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

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

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

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows at June 30, 2012 and at December 31, 2011:

June 30, 2012 Securities Available for Sale: (In Thousands)	Total	Level 1	Level 2	Level 3
U.S. Government and agency obligations	$ 25,005	$ -	$ 25,005	$ -
Mortgage-backed securities - residential	22,485	-	22,485	-
SBA pools	3,321	-	3,321	-
Total Available for Sale Securities	$ 50,811	$ -	$ 50,811	$ -

December 31, 2011 Securities Available for Sale: (In Thousands)	Total	Level 1	Level 2	Level 3
U.S. Government and agency obligations	$ 33,852	$ -	$ 33,852	$ -
Mortgage-backed securities - residential	31,055	-	31,055	-
SBA pools	3,503	-	3,503	-
Total Available for Sale Securities	$ 68,410	$ -	$ 68,410	$ -

No assets or liabilities have been measured on a non-recurring basis at or for the three and six months ended June 30, 2012 or at or for the year ended December 31, 2011.

Accounting guidance 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. Certain assets and liabilities are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

Note 2--Fair Value Measurement and Disclosure (Continued)

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments at June 30, 2012 and December 31, 2011:

Cash, Due from Banks, and Interest-Earning 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 banking 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 based on observable market based assumptions (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) are used to support fair values of certain Level 3 investments. The Company had no Level 3 investment securities at June 30, 2012 or at December 31, 2011.

Investment in FHLB Stock

The carrying value of Federal Home Loan Bank ("FHLB") stock approximates its fair value based on the restricted nature of the FHLB stock.

Loans

The fair values of loans held to maturity 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.

Mortgage loans held for sale in the secondary market are carried at the lower of cost or fair value. Separate determinations of fair value for residential and commercial loans are made on an aggregate basis. Fair value is determined based solely on the effect of changes in secondary market interest rates and yield requirements from the commitment date to the date of the financial statements. Realized gains and losses on sales are computed using the specific identification method.

Accrued Interest Receivable and Payable

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

Deposits

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

Note 2--Fair Value Measurement and Disclosure (Continued)

Borrowings

The fair values of FHLB 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.

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. Such fees were not material at June 30, 2012 and December 31, 2011.

The carrying amounts and estimated fair values of the Company's financial instruments at June 30, 2012 and December 31, 2011 are as follows:

June 30, 2012					
(In Thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$1,194	$1,194	$1,194	$-	$-
Interest-earning demand deposits	7,089	7,089	7,089	-	-
Securities available for sale	50,811	50,811	-	50,811	-
Securities held to maturity	7,113	7,427	-	7,427	-
Investment in FHLB stock	1,400	1,400	-	1,400	-
Loans held for sale	2,307	2,307	-	2,307	-
Loans, net	137,665	146,677	-	-	146,677
Accrued interest receivable	694	694	694	-	-
Financial liabilities:					
Deposits	168,443	167,627	79,106	88,521	-
Borrowings	23,623	23,244	-	23,244	-
Accrued interest payable	45	45	45	-	-

December 31, 2011		
(In Thousands)	Carrying Amount	Fair Value
Financial assets:		
Cash and due from banks	$ 799	$ 799
Interest-earning demand deposits	8,238	8,238
Securities available for sale	68,410	68,410
Securities held to maturity	7,230	7,499
Investment in FHLB stock	1,401	1,401
Loans held for sale	1,535	1,535
Loans, net	126,742	136,550
Accrued interest receivable	884	884

Financial liabilities:		
Deposits	175,102	174,046
Borrowings	24,178	23,669
Accrued interest payable	59	59

Note 3 - Securities

The amortized cost and estimated fair value of securities with gross unrealized gains and losses at June 30, 2012 and at December 31, 2011 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
June 30, 2012:				
Available for Sale:				
U.S. Government and agency obligations	$24,941	$71	$(7)	$25,005
Mortgage-backed securities - residential	22,133	393	(41)	22,485
SBA pools	3,244	77	-	3,321
	$50,318	$541	$(48)	$50,811
Held to Maturity:				
Mortgage-backed securities-residential	$4,149	$224	$-	$4,373
State and Municipal securities	2,964	90	-	3,054
	$7,113	$314	$-	$7,427
December 31, 2011:				
Available for Sale:				
U.S. Government and agency obligations	$33,688	$179	$(15)	$33,852
Mortgage-backed securities - residential	30,578	525	(48)	31,055
SBA pools	3,444	59	-	3,503
	$67,710	$763	$(63)	$68,410
Held to Maturity:				
Mortgage-backed securities – residential	$4,260	$160	$-	$4,420
State and Municipal securities	2,970	109	-	3,079
	$7,230	$269	$-	$7,499

Mortgage-backed securities consist of securities that are issued by Fannie Mae ("FNMA"), Freddie Mac ("FHLMC"), Ginnie Mae ("GNMA"), and Federal Farm Credit Bank ("FFCB") and are collateralized by residential mortgages.

The amortized cost and estimated fair value by contractual maturity of debt securities at June 30, 2012 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

Note 3 – Securities (continued)

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In Thousands)		(In Thousands)	
Due in one year or less	$-	$-	$-	$-
Due after one year through five years	2,001	2,031	1,618	1,644
Due after five years through ten years	6,525	6,533	1,346	1,410
Due after ten years	16,415	16,441	-	-
Mortgage-backed securities – residential	22,133	22,485	4,149	4,373
SBA pools	3,244	3,321	-	-
	$50,318	$50,811	$7,113	$7,427

For the six months ended June 30, 2012 there was a $234,000 gross realized gain on sale of mortgage-backed securities available for sale resulting from proceeds of $10.0 million and a $74,000 gross realized gain on sale of U.S. government agency securities available for sale resulting from proceeds of $886,000. For the six months ended June 30, 2011 there was a $24,000 gross realized gain on sale of mortgage-backed securities available for sale resulting from proceeds of $1.4 million.

No securities were pledged to secure public deposits or for any other purpose required or permitted by law at June 30, 2012 or at December 31, 2011.

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2012 and December 31, 2011:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)					
June 30, 2012:						
Available for Sale						
U.S. Government and agency obligations	$ 6,031	$ 6	$ 511	$ 1	$ 6,542	$ 7
Mortgage-backed securities - residential	5,022	41	-	-	5,022	41
	$ 11,053	$ 47	$ 511	$ 1	$ 11,564	$ 48
December 31, 2011:						
Available for Sale						
U.S. Government and agency obligations	$ 6,059	$ 14	$ 1,300	$ 1	$ 7,359	$ 15
Mortgage-backed securities - residential	9,474	44	792	4	10,266	48
	$ 15,533	$ 58	$ 2,092	$ 5	$ 17,625	$ 63

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Note 3 – Securities (continued)

Management evaluates securities for other-than-temporary impairment at least quarterly, 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, (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies, and (6) whether the Company intends to sell or more likely than not be required to sell the debt securities. In the three and six month periods ended June 30, 2012 and 2011, and the year ended December 31, 2011, the Company did not record an other-than-temporary impairment charge.

At June 30, 2012, seven U.S. Government and agency securities and three mortgage-backed securities were in a continuous unrealized loss position for less than twelve months. At June 30, 2012, one U.S. Government agency security was in a continuous unrealized loss position for twelve months or more. The U.S. Government and agency securities and mortgage-backed securities were issued by U.S. government sponsored agencies. All are paying in accordance with their terms with no deferrals of interest or defaults. Because the decline in fair value is attributable to changes in interest rates, not credit quality, and because management 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. There were no state and municipal securities or SBA pools in a continuous loss position for less than or more than twelve months at June 30, 2012 or December 31, 2011.

Note 4 – Loans and The Allowance for Loan Losses

Net loans at June 30, 2012 and December 31, 2011 consist of the following:

	2012	2011
	(In Thousands)	
Real estate loans:		
Secured by one-to-four-family residential	$ 124,275	$ 113,538
Home equity lines of credit	10,256	9,425
Secured by multi-family residential	485	1,333
Construction	417	938
Commercial	2,193	1,489
Other	73	64
Total Loans	137,699	126,787
Net deferred loan origination costs	377	366
Allowance for loan losses	(411)	(411)
Net Loans	$ 137,665	$ 126,742

The loan portfolio is segmented into commercial and consumer loans. Commercial loans consist of a commercial real estate class. Consumer loans consist of the following classes: residential real estate secured by one-to-four-family residences, residential real estate secured by multi-family residences, construction, home equity lines of credit, and other loans.

The Company's primary lending activity is the origination of one-to-four-family residential real estate mortgage loans. At June 30, 2012, $124.3 million, or 90.2%, of the total loan portfolio consisted of one-to-four-family residential real estate mortgage loans compared to $113.5 million, or 89.5%, of the total loan portfolio at December 31, 2011. The Company offers fixed-rate and adjustable-rate residential real estate mortgage loans with maturities of up to 30 years and maximum loan amounts generally of up to $750,000.

Note 4 – Loans and The Allowance for Loan Losses (continued)

The Company currently offers fixed-rate conventional mortgage loans with terms of up to 30 years that are fully amortizing with monthly loan payments, and adjustable-rate mortgage loans that provide an initial fixed interest rate for one, three, five, seven or ten years and that amortize over a period of up to 30 years. The Company originates fixed-rate mortgage loans with terms of less than 15 years, but at rates applicable to 15-year loans. The Company originates fixed-rate bi-weekly mortgage loans with terms of up to 30 years that are fully amortizing with bi-weekly loan payments, and "interest only" loans where the borrower pays interest for an initial period (ten years) after which the loan converts to a fully amortizing loan.

Management actively monitors the interest rate risk position to determine the desired level of investment in fixed-rate mortgages. Depending on market interest rates and the Bank's capital and liquidity position, all newly originated longer term fixed-rate residential mortgage loans may be retained, or, all or a portion of such loans may be sold in the secondary mortgage market to government sponsored entities such as Freddie Mac or other purchasers.

The Company originates residential, first mortgage loans with the assistance of computer-based underwriting engines licensed from Fannie Mae and/or Freddie Mac. Appraisals of real estate collateral are contracted directly with independent appraisers and not through appraisal management companies. The Company's appraisal management policy and procedure is in accordance with all rules and best practice guidance from the Company's primary regulator. Credit scoring, using FICO, is employed in the ultimate judgmental credit decision by the Company's underwriting staff. The Company does not use third party contract underwriting services. Residential mortgage loans include fixed and variable interest rate loans secured by one-to-four-family homes generally located in Monroe, Ontario, and Wayne counties of New York State. The Company's ability to be repaid on such loans is closely linked to the economic and real estate market conditions in this region. Underwriting policies generally adhere to Fannie Mae and Freddie Mac guidelines for loan requests of conforming and non-conforming amounts. In deciding whether to originate each residential mortgage, the Company considers the qualifications of the borrower as well as the value of the underlying property.

Adjustable-rate mortgage loans generally present different credit risks than fixed-rate mortgage loans primarily because the underlying debt service payments of the borrowers increase as interest rates increase, thereby increasing the potential for default. Interest-only loans present different credit risks than fully amortizing loans, as the principal balance of the loan does not decrease during the interest-only period. As a result, the Company's exposure to loss of principal in the event of default does not decrease during this period.

The Company offers home equity lines of credit, which are primarily secured by a second mortgage on one-to-four-family residences. At June 30, 2012, home equity lines of credit totaled $10.3 million, or 7.4%, of total loans receivable compared to $9.4 million, or 7.4%, of total loans receivable at December 31, 2011.

The underwriting standards for home equity lines of credit include a determination of the applicant's credit history, an assessment of the applicant's ability to meet existing obligations, the value of the collateral securing the loan, and payments on the proposed loan. The combined loan-to-value ratio (first and second mortgage liens) for home equity lines of credit is generally limited to 90%. The Company originates home equity lines of credit without application fees or borrower-paid closing costs. Home equity lines of credit are offered with adjustable-rates of interest indexed to the prime rate, as reported in The Wall Street Journal.

Multi-family residential loans generally are secured by rental properties. Multi-family real estate loans are offered with fixed and adjustable interest rates. Loans secured by multi-family real estate totaled $485,000, or 0.4%, of the total loan portfolio at June 30, 2012, compared to $1.3 million, or 1.1%, of the total loan portfolio at December 31, 2011. Multi-family real estate loans are originated for terms of up to 20 years. Adjustable-rate multi-family real estate loans are tied to the average yield on U.S. Treasury securities, subject to periodic and lifetime limitations on interest rate changes.

Note 4 – Loans and The Allowance for Loan Losses (continued)

Loans secured by multi-family real estate generally involve a greater degree of credit risk than one-to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors including: the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family real estate typically depends upon the successful operation of the real estate property securing the loans. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

The Company originates construction loans for the purchase of developed lots and for the construction of single-family residences. At June 30, 2012, construction loans totaled $417,000, or 0.3%, of total loans receivable compared to $938,000, or 0.7%, at December 31, 2011. At June 30, 2012, the additional unadvanced portion of these construction loans totaled $522,000 compared to $350,000 at December 31, 2011. Construction loans are offered to individuals for the construction of their personal residences by a qualified builder.

Before making a commitment to fund a construction loan, the Company requires an appraisal of the property by an independent licensed appraiser. The Company generally also reviews and inspects each property before disbursement of funds during the term of the construction loan.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost proves to be inaccurate, the Company may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project proves to be inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the loan.

Commercial real estate loans are secured by office buildings, mixed use properties, places of worship, and other commercial properties. At June 30, 2012, $2.2 million, or 1.6%, of our total loan portfolio consisted of commercial real estate loans compared to $1.5 million, or 1.2%, of our total loan portfolio at December 31, 2011.

The Company generally originates adjustable-rate commercial real estate loans with maximum terms of up to 15 years. The maximum loan-to-value ratio of commercial real estate loans is 70%.

Loans secured by commercial real estate generally are larger than one-to-four-family residential loans and involve greater credit risk. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of these loans makes them more difficult for management to monitor and evaluate.

The Company offers a variety of other loans secured by property other than real estate. At June 30, 2012, these other loans totaled $73,000, or 0.1%, of the total loan portfolio compared to other loans totaling $64,000, or 0.1%, of the total loan portfolio at December 31, 2011. These loans include automobile, passbook, overdraft protection and unsecured loans. Due to the relative immateriality of other loans, the Company's risk associated with these loans is not considered significant.

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Note 4 – Loans and The Allowance for Loan Losses (continued)

The following table sets forth the allowance for loan losses allocated by loan class and the activity in our allowance for loan losses for the three and six months ended June 30, 2012 and 2011. The allowance for loan losses allocated to each class is not necessarily indicative of future losses in any particular class and does not restrict the use of the allowance to absorb losses in other classes.

	Secured by 1-4 family residential	Secured by multi-family residential	Construction	Commercial	Home Equity	Other/ Unallocated	Total
Three months ended June 30, 2012				(In thousands)			
Beginning Balance	$ 287	$ 4	$ 1	$ 21	$ 48	$ 43	$ 404
Charge Offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provisions	18	-	1	1	6	(19)	7
Ending Balance (1)	$ 305	$ 4	$ 2	$ 22	$ 54	$ 24	$ 411
Six months ended June 30, 2011							
Beginning Balance	$ 289	$ 10	$ 5	$ 15	$ 47	$ 45	$ 411
Charge Offs	(15)	-	-	-	-	-	(15)
Recoveries	-	-	-	-	-	-	-
Provisions	31	(6)	(3)	7	7	(21)	15
Ending Balance (1)	$ 305	$ 4	$ 2	$ 22	$ 54	$ 24	$ 411
Three months ended June 30, 2011							
Beginning Balance	$ 305	$ 9	$ 1	$ 20	$ 44	$ 13	$ 392
Charge Offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provisions	(28)	(1)	-	-	1	35	7
Ending Balance (1)	$ 277	$ 8	$ 1	$ 20	$ 45	$ 48	$ 399
Six months ended June 30, 2011							
Beginning Balance	$ 242	$ 9	$ 3	$ 14	$ 55	$ 61	$ 384
Charge Offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provisions	35	(1)	(2)	6	(10)	(13)	15

Ending Balance (1)	$ 277	$ 8	$ 1	$ 20	$ 45	$ 48	$ 399

(1) All Loans are collectively evaluated for impairment.

The Company's policies, consistent with regulatory guidelines, provide for the classification of loans that are considered to be of lesser quality as substandard, doubtful, or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those assets characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve our close attention, are required to be designated as special mention. All other assets are categorized as pass.

Note 4 – Loans and The Allowance for Loan Losses (continued)

When the Company classifies assets as pass, a portion of the related general loss allowances is allocated to such assets as deemed prudent. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. The Company's determination as to the classification of its assets and the amount of its loss allowances are subject to review by its principal regulators, the New York State Department of Financial Services and the FDIC, which can require that the Company establish additional loss allowances. The Company regularly reviews its asset portfolio to determine whether any assets require classification in accordance with applicable regulations.

The following table presents the risk category of loans by class at June 30, 2012 and at December 31, 2011:

	Pass	Special Mention	Substandard (In thousands)	Doubtful	Total
At June 30, 2012					
One-to-four-family residential	$123,988	$70	$217	-	$124,275
Home equity lines of credit	10,232	-	24	-	10,256
Multi-family residential	485	-	-	-	485
Construction	417	-	-	-	417
Commercial	2,193	-	-	-	2,193
Other loans	73	-	-	-	73
Total	$137,388	$70	$241	-	$137,699
At December 31, 2011					
One-to-four-family residential	$113,213	-	$325	-	$113,538
Home equity lines of credit	9,425	-	-	-	9,425
Multi-family residential	1,333	-	-	-	1,333
Construction	938	-	-	-	938
Commercial	1,489	-	-	-	1,489
Other loans	64	-	-	-	64
Total	$126,462	$-	$325	-	$126,787

At and for the three and six months ended June 30, 2012 and the year ended December 31, 2011, respectively, there were no loans considered to be impaired. All loans were collectively evaluated for impairment. At June 30, 2012 and December 31, 2011 the Company had no troubled debt restructurings.

The Company had no nonaccrual loans or foreclosed assets at June 30, 2012, and one nonaccrual loan, classified as one-to-four-family residential for $325,000 and no foreclosed assets at December 31, 2011. There were no loans that were past due 90 days or more and still accruing interest at June 30, 2012 and December 31, 2011. Interest on non-accrual loans that would have been earned if loans were accruing interest was immaterial for both 2012 and 2011.

Delinquent Loans. The following table sets forth an analysis of the age of the loan delinquencies by type and by amount past due as of June 30, 2012 and December 31, 2011.

Note 4 – Loans and The Allowance for Loan Losses (continued)

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable
			(Dollars in thousands)			
At June 30, 2012						
Real estate loans:						
One-to-four-family residential	$193	$152	$-	$345	$123,930	$124,275
Home equity lines of credit	48	24	-	72	10,184	10,256
Multi-family residential	-	-	-	-	485	485
Construction	-	-	-	-	417	417
Commercial	-	-	-	-	2,193	2,193
Other loans	-	-	-	-	73	73
Total	$241	$176	$-	$417	$137,282	$137,699
At December 31, 2011						
Real estate loans:						
One-to-four-family residential	$-	$-	$325	$325	$113,213	$113,538
Home equity lines of credit	-	-	-	-	9,425	9,425
Multi-family residential	-	-	-	-	1,333	1,333
Construction	-	-	-	-	938	938
Commercial	-	-	-	-	1,489	1,489
Other loans	-	-	-	-	64	64
Total	$-	$-	$325	$325	$126,462	$126,787

Note 5 - Federal Home Loan Bank of New York Stock

Federal law requires a member institution of the FHLB System to hold stock of its district FHLB according to a predetermined formula. This restricted stock is carried at cost.

Management evaluates the FHLB stock for impairment on a quarterly basis. Management's determination of whether this investment is impaired is based on its 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.

No impairment charges were recorded related to the FHLB stock for the three and six month periods ended June 30, 2012 and 2011.

Note 6 – Earnings (Loss) Per Common Share

Basic earnings (loss) per common share is calculated by dividing 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 had no potentially dilutive common stock equivalents. Unallocated common shares held by the Employee Stock Ownership Program ("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 1,734,270 for the three months ended June 30, 2012, 1,733,833 for the six months ended June 30, 2012, 1,730,772 for the three months ended June 30, 2011, and 1,730,337 for the six months ended June 30, 2011.

Note 7 - Recent Accounting Pronouncements

None.

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

General

Throughout Management's Discussion and Analysis ("MD&A"), the term "the Company" refers to the consolidated entity of FSB Community Bankshares, Inc., Fairport Savings Bank, and Oakleaf Services Corporation, a wholly owned subsidiary of Fairport Savings Bank. At June 30, 2012, 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 consolidated financial statements or 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 Company 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 most significant accounting policies followed by the Company are presented in Note 1 to the consolidated financial statements included in the Company's Annual Report filed on Form 10-K with the Securities and Exchange Commission on March 28, 2012. 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 consolidated financial statement amounts to the methods, assumptions and estimates underlying those amounts, management has identified the determination of the allowance for loan losses, the evaluation of investment securities for other-than-temporary impairment and the valuation and recoverability of deferred tax assets 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 the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. The amount of the allowance is based on significant estimates, and the ultimate losses may vary from such estimates as more information becomes available or conditions change. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions used and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

As a substantial percentage of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property securing a loan and the related allowance. 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. Various banking regulators, as an integral part of their examination process, also review the allowance for loan losses. Such regulators may require, based on their judgments about information available to them at the time of their examination, that certain loan balances be charged off or require that adjustments be made to the allowance for loan losses when their credit evaluations differ from those of management. Additionally, the allowance for loan losses is determined, in part, by the composition and size of the loan portfolio which represents the largest asset type on the consolidated balance sheet.

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

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

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 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.

For debt securities, credit-related OTTI is recognized in income while noncredit-related OTTI on securities not expected to be sold is recognized in other comprehensive income (loss). Credit-related OTTI is measured as the difference between the present value of an impaired security's expected cash flows and its amortized cost basis. Noncredit-related OTTI is measured as the difference between the fair value of the security and its amortized costs less any credit-related losses recognized. For securities classified as held to maturity, the amount of OTTI recognized in other comprehensive income (loss) is accreted to the credit-adjusted expected cash flow amounts of the securities over future periods. For equity securities, the entire amount of OTTI is recognized in income.

Deferred Tax Assets. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Comparison of Financial Condition at June 30, 2012 and December 31, 2011

Total Assets. Total assets decreased by $7.0 million, or 3.1%, to $216.3 million at June 30, 2012 from $223.3 million at December 31, 2011. The decrease in total assets primarily reflects decreases in securities available for sale, cash and cash equivalents, premises and equipment, and accrued interest receivable, partially offset by increases in net loans receivable, and loans held for sale.

Total securities decreased by $17.7 million, or 23.4%, to $57.9 million at June 30, 2012 from $75.6 million at December 31, 2011. The decrease in securities was a result of a $17.6 million, or 25.7%, decrease in securities classified as available for sale to $50.8 million at June 30, 2012 from $68.4 million at December 31, 2011 and a $117,000, or 1.6%, decrease in securities classified as held to maturity to $7.1 million at June 30, 2012 from $7.2 million at December 31, 2011. The $17.6 million decrease in securities classified as available for sale was attributable to maturities and calls of $25.8 million of U.S. government agency securities, $9.5 million in sales of available for sale mortgage backed securities, a $750,000 sale of U.S. government and agency obligations, $5.2 million in amortization and principal repayments received, and a $207,000 decrease in the fair value of securities classified as available for sale, partially offset by purchases of $18.1 million of U.S. government agency securities and $5.8 million of mortgage-backed securities. Securities classified as held to maturity decreased $117,000 as a result of principal repayments and amortization. All securities purchased in 2012 have been classified as 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 for the three months and six months ended June 30, 2012, and has determined that no other-than-temporary impairment exists in the portfolio at June 30, 2012.

Cash and cash equivalents, primarily interest-earning deposits at the Federal Reserve Bank of New York and Federal Home Loan Bank of New York, decreased by $754,000, or 8.3%, to $8.3 million at June 30, 2012 from $9.0 million at December 31, 2011. The Company continues to maintain a strong liquidity position, retaining excess cash and cash equivalent balances that will allow the Company to capitalize on investment and lending opportunities that may arise in future periods.

Loans held for sale increased $772,000, or 50.3%, to $2.3 million at June 30, 2012 from $1.5 million at December 31, 2011. Loans held for sale at June 30, 2012 are comprised of fixed rate one-to-four-family conventional mortgage loans and FHA mortgage loans originated and closed by the Company in the second quarter of 2012 that have been committed for sale in the secondary market and will be delivered and sold in the third quarter of 2012.

Premises and equipment decreased by $224,000, or 6.1%, to $3.4 million at June 30, 2012 from $3.7 million at December 31, 2011. The decrease was mainly due to the monthly depreciation of furniture and fixtures, office equipment, computer hardware, and building and leasehold improvements. Premises and equipment are recorded at cost and are generally depreciated by the straight-line method over the estimated useful lives of the assets. Furniture and equipment are generally depreciated over a useful life of three to seven years, and leasehold improvements over the shorter of the useful life or the term of the lease.

Accrued interest receivable decreased $190,000, or 21.5%, to $694,000 at June 30, 2012 from $884,000 at December 31, 2011. The decrease was due primarily to a lower balance and lower yield in total securities at June 30, 2012 compared to December 31, 2011.

Net loans receivable increased $10.9 million, or 8.6%, to $137.7 million at June 30, 2012 from $126.7 million at December 31, 2011. The Company originated $38.3 million of residential mortgage loans, sold $10.5 million in the secondary market and brokered $1.5 million of USDA/Rural Housing and VA mortgage loans as a balance sheet management strategy during 2012 to reduce interest rate risk in a potentially rising interest rate environment. The Company sold these loans at a gain of $355,000 which was recorded in other income in the first six months of 2012. At June 30, 2012 the Company serviced $20.1 million in mortgage loans sold.

The credit quality of the Company's loan portfolio remains strong. The Company ended the first six months of 2012 with no non-performing loans compared to $325,000 in non-performing loans comprised of one residential property at December 31, 2011. We recorded a $15,000 provision for loan losses for the six months ended June 30, 2012 and June 30, 2011. The allowance for loan losses was $411,000, or 0.29% of loans outstanding, at June 30, 2012 compared to $411,000, or 0.32% of loans outstanding, at December 31, 2011. In the first quarter of 2012, we charged off $15,000 to the allowance for loan losses on the sale of a recently foreclosed real estate owned residential property. Management has evaluated the Company's allowance for loan losses and believes it is adequate at June 30, 2012 based on the quality of the current loan portfolio. At June 30, 2012 and December 31, 2011, the Company had no loans that are considered to be troubled debt restructurings. Management continues to actively monitor the performance of the loan portfolio during these difficult economic times. 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 significantly low level of non-accruing loans.

Liabilities. Total deposits decreased by $6.7 million, or 3.8%, to $168.4 million at June 30, 2012 from $175.1 million at December 31, 2011. Core deposits including non-interest-bearing checking, NOW, savings, and MMA accounts increased by $454,000, and certificates of deposits, including individual retirement accounts (IRA), decreased by $7.1 million for the first six months of 2012 as the result of management's prudent pricing of lower rates for non-relationship customers in the continued low interest rate environment.

Borrowings, consisting of Federal Home Loan Bank ("FHLB") advances, decreased by $555,000, or 2.3%, to $23.6 million at June 30, 2012 from $24.2 million at December 31, 2011. The decrease of $555,000 in the first six months of 2012 included $7.2 million in maturities and $3.0 million in prepayments of FHLB fixed rate borrowings, partially offset by $9.5 million in new FHLB fixed rate borrowings, and $100,000 in amortization of deferred premium expense.

Stockholders' Equity. Total stockholders' equity decreased by $226,000, or 1.1%, to $20.6 million at June 30, 2012 from $20.8 million at December 31, 2011. There was a decrease of $137,000 in accumulated other comprehensive income, and a net loss of $102,000, partially offset by a $13,000 increase in committed ESOP shares. At June 30, 2012 the Bank was considered well capitalized, which is the highest standard of capital rating as defined by the Bank's regulators.

Non-Performing Assets. At June 30, 2012 the Company had no loans classified as non-performing compared to one loan classified as non-performing for $325,000 at December 31, 2011 that was foreclosed and sold during the first three months of 2012. At June 30, 2012 and December 31, 2011 the Company had no foreclosed assets. At June 30, 2012, management has evaluated the Company's loan loss reserve and believes it is adequate based on the quality of the current loan portfolio. At June 30, 2012, there were no other assets that are not disclosed as classified or special mention in note 4 of the accompanying consolidated financial statements, 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 impairment or 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 June 30,							
	2012				2011			
	Average Balance	Interest Income/ Expense	Yield/ Cost		Average Balance	Interest Income/ Expense	Yield/ Cost	
	(Dollars in thousands)							
Interest-earning assets:								
Loans	$134,776	$1,602	4.75	%	$116,447	$1,520	5.22	%
Securities - taxable	33,969	156	1.84		41,305	243	2.35	
Mortgage-backed securities	28,752	114	1.59		36,398	215	2.36	
Securities - tax exempt (1)	2,966	21	2.83		2,472	18	2.91	
Other	5,103	1	0.08		6,276	2	0.13	
Total interest-earning assets	205,566	1,894	3.69	%	202,898	1,998	3.94	%
Non-interest-earning assets	9,827				8,257			
Total assets	$215,393				$211,155			
Interest-bearing liabilities:								
NOW accounts	$15,113	9	0.24	%	$11,711	10	0.34	%
Passbook savings	35,057	40	0.46		24,405	19	0.31	
Money market savings	23,139	20	0.35		27,018	33	0.49	
Individual retirement accounts	16,403	70	1.71		18,646	105	2.25	
Certificates of deposit	74,542	238	1.28		75,826	294	1.55	
Borrowings	22,332	180	3.22		26,238	224	3.41	
Total interest-bearing liabilities	186,586	557	1.19	%	183,844	685	1.49	%
Non-interest-bearing liabilities:								
Demand deposits	4,921				4,049			
Other	3,252				2,788			
Total liabilities	194,759				190,681			
Stockholders' equity	20,634				20,474			
	$215,393				$211,155			

Total liabilities and stockholders’ equity						
Net interest income		$1,337			$1,313	
Interest rate spread (2)			2.50 %			2.45 %
Net interest-earning assets (3)	$18,980			$19,054		
Net interest margin (4)		2.60 %			2.59 %	
Average interest-earning assets to average interest-bearing liabilities	110 %			110 %		

	For the Six Months Ended June 30,							
	2012				2011			
	Average Balance	Interest Income/ Expense	Yield/ Cost		Average Balance	Interest Income/ Expense	Yield/ Cost	
	(Dollars in thousands)							
Interest-earning assets:								
Loans	$132,041	$3,182	4.82	%	$116,238	$3,044	5.24	%
Securities - taxable	35,195	330	1.88		44,260	507	2.29	
Mortgage-backed securities	31,317	306	1.95		34,071	455	2.67	
Securities - tax exempt (1)	2,967	44	2.97		2,368	37	3.13	
Other	6,013	3	0.10		6,043	4	0.13	
Total interest-earning assets	207,533	3,865	3.72	%	202,980	4,047	3.99	%
Non-interest-earning assets	9,978				8,522			
Total assets	$217,511				$211,502			
Interest-bearing liabilities:								
NOW accounts	$13,950	20	0.29	%	$11,622	22	0.38	%
Passbook savings	35,313	99	0.56		24,674	47	0.38	
Money market savings	23,664	41	0.35		27,300	82	0.60	
Individual retirement accounts	16,750	150	1.79		18,477	214	2.32	
Certificates of deposit	76,507	514	1.34		76,276	601	1.58	
Borrowings	22,945	390	3.40		26,270	453	3.45	
Total interest-bearing liabilities	189,129	1,214	1.28	%	184,619	1,419	1.54	%
Non-interest-bearing liabilities:								
Demand deposits	4,656				3,921			
Other	2,955				2,519			
Total liabilities	196,740				191,059			
Stockholders’ equity	20,771				20,443			
Total liabilities and stockholders’ equity	$217,511				$211,502			
Net interest income		$2,651				$2,628		
Interest rate spread (2)			2.44	%			2.45	%
Net interest-earning assets (3)	$18,404				$18,361			
Net interest margin (4)		2.55 %				2.59 %		
Average interest-earning assets to average interest-bearing liabilities	110 %				110 %			

(1) Tax-exempt interest income is presented on a tax equivalent basis using a 34 percent federal tax rate.

(2) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by total interest-earning assets.

Comparison of Operating Results for the Three Months Ended June 30, 2012 and June 30, 2011

General. The Company had net income of $11,000 for the quarter ended June 30, 2012 compared to net income of $16,000 for the quarter ended June 30, 2011. Net income per share was $0.01 for both the quarter ended June 30, 2012 and quarter ended June 30, 2011. The Company's net interest margin for the quarters ended June 30, 2012 increased 1 basis point to 2.60% from 2.59% for the quarter ended June 30, 2011, due to the decrease in our cost of interest-bearing liabilities of 30 basis points from 1.49% to 1.19%, which was partially offset by a decrease in the yield earned on our interest-earning assets of 25 basis points from 3.94% to 3.69%.

The $5,000 decrease in net income for the second quarter of 2012 compared to the second quarter of 2011 resulted from a $312,000 increase in other expense and a $2,000 decrease in income tax benefit, partially offset by a $286,000 increase in other income and a $23,000 increase in net interest income. The increase in other expense was primarily attributable to increases in expenses related to the Perinton branch that was opened in October 2011, and increased mortgage commissions and mortgage fees and taxes with additional mortgage production in 2012, partially offset by a decrease in FDIC premium expense in 2012 compared with 2011 that resulted from changes made by the FDIC, reflecting a lower rate in the Company's deposit insurance assessment. The increase in other income in the second quarter of 2012 compared to the second quarter of 2011 was mainly due to increases in realized gain on sale of securities, realized gain on sale of loans, and mortgage fee income. The increase in net interest income is reflective of the Company's ability to reduce its deposit and borrowing costs in a low interest rate environment, partly offset by a decrease in interest income on interest-earning assets.

Interest and Dividend Income. Interest and dividend income decreased by $105,000 or 5.3%, to $1.9 million for the three months ended June 30, 2012 from $2.0 million for the three months ended June 30, 2011. The $105,000 decrease in interest and dividend income resulted from a $101,000 or 47.0%, decrease in interest income from mortgage-backed securities, an $87,000 or 35.8%, decrease in taxable securities, and a $1,000, or 50.0%, decrease in interest income from other sources, mainly interest-earning deposits at the Federal Reserve Bank of New York and Federal Home Loan Bank of New York, partially offset by an $82,000, or 5.4%, increase in interest income from loans, and a $2,000 or 16.7%, increase in interest income from tax exempt securities. Average interest-earning assets increased by $2.7 million, or 1.3%, to $205.6 million for the three months ended June 30, 2012 from $202.9 million for the three months ended June 30, 2011. The yield on interest-earning assets decreased by 25 basis points to 3.69% for the three months ended June 30, 2012 compared to 3.94% for the three months ended June 30, 2011. The overall decrease in interest and dividend income resulted from a decrease in yield on all interest-earning asset categories, despite a volume increase in higher yielding interest-earning assets, primarily loans, for the three months ended June 30, 2012.

Interest Expense. Interest expense decreased $128,000, or 18.7%, to $557,000 for the three months ended June 30, 2012 from $685,000 for the three months ended June 30, 2011. The decrease in interest expense resulted primarily from significantly lower average rates paid on deposits and borrowings and lower average balances on borrowings and higher cost deposit products, mainly certificates of deposit and IRAs, in the continuing low interest rate environment. The average balance of interest-bearing liabilities increased $2.7 million, or 1.5%, to $186.6 million for the three months ended June 30, 2012 compared to $183.8 million for the three months ended June 30, 2011. The average cost of interest-bearing liabilities decreased by 30 basis points to 1.19% for the three months ended June 30, 2012 from 1.49% for the three months ended June 30, 2011. The average cost of deposit accounts decreased by 25 basis points to 0.92% for the three months ended June 30, 2012 compared to 1.17% for the three months ended June 30, 2011. The average cost of borrowings decreased by 19 basis points to 3.22% for the three months ended June 30, 2012 compared to 3.41% for the three months ended June 30, 2011. The average balance of borrowings decreased $3.9 million, or 14.9%, to $22.3 million for the three months ended June 30, 2012 compared to $26.2 million for the three months ended June 30, 2011. The decrease in interest expense reflects the Company's management of lower deposit and borrowing costs in a historically low interest rate environment. The Company has continued to respond to the lower interest rate environment allowing for downward deposit re-pricing of all deposits accounts and borrowings decreasing our overall cost of funds.

At June 30, 2012, the Company had $13.1 million of certificates of deposit, including IRAs that will mature during the third quarter of 2012, with a weighted average cost of 1.38%. Based on current market rates, if these funds remain with the Company with similar maturities, the rates paid on these deposits will decrease.

Net Interest Income. Net interest income increased $23,000, or 1.8%, to $1.3 million for the three months ended June 30, 2012 from $1.3 million for the three months ended June 30, 2011. The increase in net interest income was due primarily to a lower average cost of deposits and borrowings and a higher average balance in higher yielding assets, primarily loans, partially offset by a decrease in yield on all interest-earning assets. The Company's net interest margin increased 1 basis point to 2.60% for the three months ended June 30, 2012 from 2.59% for the three months ended June 30, 2011.

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 periods ended June 30, 2012 and June 30, 2011. The allowance for loan losses was $411,000, or 0.29% of loans outstanding, at June 30, 2012 compared to $399,000, or 0.34% of loans outstanding, at June 30, 2011. We ended the quarter with no non-accrual loans at June 30, 2012 compared to $325,000 in non-accrual loans at June 30, 2011. We recorded no charge offs in the second quarter of 2012 and 2011. We had no foreclosed real estate at June 30, 2012 or at June 30, 2011.

Other Income. Total other income increased $286,000, or 108.8%, to $549,000 for the three months ended June 30, 2012 compared to $263,000 for the three months ended June 30, 2011. In the three months ended June 30, 2012 compared to the three months ended June 30, 2011, there was a $149,000 increase in realized gain on sale of loans, a $114,000 increase in mortgage fee income, an $18,000 increase in realized gain on sale of securities, a $6,000 increase in deposit service fees, a $1,000 increase in miscellaneous other income, and a $2,000 increase in commissions from Oakleaf Services insurance/annuity and security sales, partially offset by a $4,000 decrease in bank owned life insurance income.

Other Expense. Total other expense increased $312,000, or 20.0%, to $1.9 million for the three months ended June 30, 2012 compared to $1.6 million for the three months ended June 30, 2011. The increase in other expense was primarily attributable to increases in expenses related to the Perinton branch that was opened in October 2011, and increased mortgage commissions and mortgage fees and taxes with additional mortgage production in 2012, partially offset by a decrease in FDIC premium expense in 2012 compared with 2011 that resulted from changes made by the FDIC, reflecting a lower rate in the Company's deposit insurance assessment. The $312,000 increase included a $168,000 increase in salaries and employee benefits, an $81,000 increase in mortgage fees and taxes, a $44,000 increase in equipment expense, a $38,000 increase in miscellaneous other expenses, a $34,000 increase in occupancy expense, a $10,000 increase in data processing costs, and a $2,000 increase in advertising expense, partially offset by a $36,000 decrease in FDIC insurance premium expense, a $14,000 decrease in audit and taxes, a $9,000 decrease in electronic banking, and a $6,000 decrease in directors fees.

Income Tax Expense. We had pre-tax income of $2,000 for the three months ended June 30, 2012 compared to pre-tax income of $5,000 for the three months ended June 30, 2011, and had a $9,000 tax benefit for the three months ended June 30, 2012, compared to a $11,000 tax benefit for the three months ended June 30, 2011, a decrease in tax benefit of $2,000. The effective tax rate was (450.00)% for the three months ended June 30, 2012 compared to (220.00)% for the three months ended June 30, 2011. The high effective tax rate in the quarters ended June 30, 2012 and June 30, 2011 were mainly due to the fact that the increase in the cash surrender value of our bank owned life insurance and municipal bond interest income exceeded pre-tax income. The New York State franchise tax recorded on taxable assets for the quarters ended June 30, 2012 and 2011 exceeded the mortgage tax generated in each of these periods.

Comparison of Operating Results for the Six Months Ended June 30, 2012 and June 30, 2011

General. We had a net loss of $102,000 for the six months ended June 30, 2012 compared to a net loss of $30,000 for the six months ended June 30, 2011. The $72,000 increase in net loss for the first six months of 2012 compared to the first six months of 2011 was attributable to an increase in other expense of $809,000, partially offset by an increase in other income of $690,000, an increase in net interest income of $21,000, and an increase in income tax benefit of $26,000. The $809,000 increase in other expense was primarily due to increases in salaries and employee benefits, occupancy, equipment, and miscellaneous other expenses related to the Perinton branch that was opened in October 2011, increased commissions and mortgage fees and taxes with additional mortgage production in 2012, an FHLB prepayment penalty paid to eliminate the interest cost on higher rate FHLB advances in future periods, and additional advertising expenses related to the current deposit checking promotion. The $690,000 increase in other income was mainly due to increases in realized gain on sale of loans, realized gain on sale of securities, mortgage fee income, and fee income related to Oakleaf revenue, partly offset by a decrease in bank owned life insurance income. The $21,000 increase in net interest income was primarily due to a volume increase in higher interest yielding assets and the Company's ability to reduce the cost of interest-bearing liabilities in a low interest rate environment. The $26,000 increase in income tax benefit (reduction in expense) resulted from the increase in cash surrender value of our bank owned life insurance and municipal bond interest income which are tax exempt for Federal income tax purposes.

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Interest and Dividend Income. Interest and dividend income decreased by $184,000, or 4.6%, to $3.8 million for the six months ended June 30, 2012 from $4.0 million for the six months ended June 30, 2011. The decrease in interest and dividend income resulted primarily from a $177,000, or 34.9%, decrease in interest income from taxable securities, a $149,000, or 32.7%, decrease in interest income from mortgage-backed securities, and a $1,000, or 25.0%, decrease in interest income from other sources, mainly interest-earning deposits at the Federal Reserve Bank and Federal Home Loan Bank, partially offset by a $138,000, or 4.5%, increase in interest income from loans and a $5,000, or 20.8%, increase in interest income from tax exempt securities. Average interest-earning assets increased by $4.6 million, or 2.2%, to $207.5 million for the six months ended June 30, 2012 from $203.0 million for the six months ended June 30, 2011. The yield on interest-earning assets decreased by 27 basis points to 3.72% for the six months ended June 30, 2012 compared to 3.99% for the six months ended June 30, 2011, reflecting decreases in interest yields all interest-earning asset categories.

Interest Expense. Interest expense decreased $205,000, or 14.4%, to $1.2 million for the six months ended June 30, 2012 from $1.4 million for the six months ended June 30, 2011. The decrease in interest expense on interest-bearing liabilities resulted from lower average rates paid on deposits and borrowings, despite an increase in the aggregate average balance. Average balances in interest-bearing liabilities increased $4.5 million, or 2.4%, to $189.1 million for the six months ended June 30, 2012 compared to $184.6 million for the six months ended June 30, 2011. The average cost of interest-bearing liabilities decreased by 26 basis points to 1.28% for the six months ended June 30, 2012 from 1.54% for the six months ended June 30, 2011. The average cost of deposit accounts decreased by 23 basis points to 0.99% for the six months ended June 30, 2012 compared to 1.22% for the six months ended June 30, 2011. The average cost of borrowings decreased by 5 basis points to 3.40% for the six months ended June 30, 2012 compared to 3.45% for the six months ended June 30, 2011. The decrease in interest expense reflects a significantly lower cost of funds in total deposits and borrowings in a lower interest rate environment.

Net Interest Income. Net interest income increased $21,000, or 0.8%, to $2.6 million for the six months ended June 30, 2012 from $2.6 million for the six months ended June 30, 2011. The increase in net interest income was primarily due to a volume increase in higher interest yielding assets, primarily mortgages, as well as the cost decrease of interest bearing liabilities for the six months ended June 30, 2012 compared to the six months ended June 30, 2011. Our net interest margin decreased by 4 basis points to 2.55% for the six months ended June 30, 2012 from 2.59% for the six months ended June 30, 2011. The decrease in net interest margin was attributable to the decrease in yield on interest-earning assets of 27 basis points, partially offset by a decrease in cost of interest-bearing liabilities of 26 basis points for the six months ended June 30, 2012 compared to the six months ended June 30, 2011.

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 $15,000 provision for loan losses for both six month periods ended June 30, 2012 and June 30, 2011. In the first six months of 2012, we charged off $15,000 to the allowance for loan losses on the sale of a recently foreclosed real estate owned residential property compared to no charge-offs recorded in the first six months of 2011. The allowance for loan losses at June 30, 2012 was $411,000 or 0.29% of total loans, compared to $399,000 or 0.34% of total loans at June 30, 2011. We ended the first six month with no non-accrual loans at June 30, 2012 compared to one non-accrual loan for $325,000 at June 30, 2011. We had no foreclosed real estate at June 30, 2012 or 2011.

Other Income. Other income increased $690,000, or 146.5%, to $1.2 million for the six months ended June 30, 2012 compared to $471,000 for the six months ended June 30, 2011. The $690,000 increase was due to a $230,000 increase in gain on sale of mortgage loans in the secondary market, a $284,000 increase in realized gain on sale of securities, a $145,000 increase in mortgage fee income, a $24,000 increase in commissions from Oakleaf Services insurance/annuity and security sales, a $9,000 increase in deposit service fees, and a $4,000 increase in other miscellaneous income, partially offset by a $6,000 decrease in bank owned life insurance income.

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Other Expenses. Other expenses increased $809,000, or 25.6%, to $4.0 million for the six months ended June 30, 2012 compared to $3.2 million for the six months ended June 30, 2011. The $809,000 increase resulted from a $294,000 increase in salaries and employee benefits, a $268,000 FHLB prepayment penalty, a $95,000 increase in mortgage fees and taxes, a $77,000 increase in occupancy expense, a $23,000 increase in advertising, a $70,000 increase in equipment expense, $92,000 increase in other expenses, and a $4,000 increase in data processing costs, partially offset by a $68,000 decrease in FDIC insurance premium expense, a $6,000 decrease in directors fees, a $20,000 decrease in electronic banking, and a $20,000 decrease in audit and taxes.

Income Taxes. The Company had a pre-tax loss of $182,000 for the six months ended June 30, 2012 compared to a pre-tax loss of $84,000 for the six months ended June 30, 2011, and had an $80,000 tax benefit for the six months ended June 30, 2012, compared to a $54,000 tax benefit for the six months ended June 30, 2011, a change of $26,000. The effective tax benefit rate was (44.0)% for the six months ended June 30, 2012 compared to (64.3)% for the six months ended June 30, 2011. The high tax rates for the six month periods ended June 30, 2012 and June 30, 2011 were primarily due to the relative balance of cash surrender value of the bank owned life insurance and municipal bond interest income, which are tax exempt, when compared to loss before income taxes.

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 FHLB, maturities and principal repayments of securities, and 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 20.0% or greater. At June 30, 2012 our liquidity ratio was 51.9%. We believe that we have enough sources of liquidity to satisfy our short and long-term liquidity needs as of June 30, 2012.

We regularly adjust our investments in liquid assets based upon our assessment of:

(i) expected loan demand;

(ii) expected deposit flows;

(iii) yields available on interest-earning deposits and securities; and

(iv) the objectives of our asset/liability management program.

Excess liquid assets are invested generally in interest-earning deposits, short-term and intermediate-term securities and federal funds sold.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At June 30, 2012, cash and cash equivalents totaled $8.3 million.

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

At June 30, 2012, we had $7.3 million in loan commitments outstanding. In addition to commitments to originate loans, we had $9.7 million in unused lines of credit to borrowers. Certificates of deposit, including IRAs comprised solely of certificates of deposits, due within one year of June 30, 2012 totaled $49.6 million, or 55.4% of our certificates of deposit and 29.5% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds including loan sales, other deposit products, including certificates of deposit, and FHLB advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before June 30, 2013. We believe, however, based on past experience that a significant portion of such deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activity is, and will continue to be, originating loans. During the six months ended June 30, 2012, we originated $38.3 million of loans.

Financing activities consist primarily of activity in deposit accounts and FHLB borrowings. We experienced a net decrease in total deposits of $6.7 million for the six months ended June 30, 2012. 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 FHLB of New York, which provides an additional source of funds. FHLB borrowings decreased by $555,000 to $23.6 million for the six months ended June 30, 2012 compared to a net decrease of $1.5 million to $25.2 million for the six months ended June 30, 2011. Historically, FHLB borrowings have primarily been used to fund loan demand and expand the investment portfolio. At June 30, 2012, we had the ability to borrow approximately $95.5 million from the Federal Home Loan Bank, of which $23.9 million had been advanced, gross of premium.

The Company also has a repurchase agreement with a third party broker providing an additional $10.0 million in liquidity. Funds obtained under the repurchase agreement are secured by the Company's U.S. Government and agency obligations. There were no advances outstanding under the repurchase agreement at June 30, 2012 or at December 31, 2011.

Fairport Savings Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At June 30, 2012, 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 to extend credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by us, is based on our credit evaluation of the customer.

At June 30, 2012 and 2011, we had $7.3 million and $5.7 million, respectively, of commitments to grant loans, and $9.7 million and $8.8 million, respectively, of unfunded commitments under lines of credit.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable since the Company is a smaller reporting company.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at June 30, 2012.

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 have materially affected, or are 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 consolidated financial condition or results of operations.

Item 1A. Risk Factors

Not applicable.

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. Mine Safety Disclosures

Not applicable.

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. (1)

3.2 Bylaws of FSB Community Bankshares, Inc. (1)

4 Form of Common Stock Certificate of FSB Community Bankshares, Inc. (1)

10.1 Supplemental Executive Retirement Plan (1, 2, 3)

10.2 Form of Employee Stock Ownership Plan (1)

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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(1) 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.
(2) Filed as an exhibit to the Company's Current Report on Form 8-K, file with the Securities and Exchange Commission on August 4, 2010.
(3) Incorporated by reference to the Registrant's current Report on Form 8-K filed with the Securities and Exchange Commission on October 7, 2011.

SIGNATURES

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

	FSB COMMUNITY BANKSHARES, INC.
Date: August 14, 2012	/s/ Dana C. Gavenda Dana C. Gavenda President and Chief Executive Officer
Date: August 14, 2012	/s/ Kevin D. Maroney Kevin D. Maroney Executive Vice President and Chief Financial Officer

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