

UNITED NATURAL FOODS INC  
 Form 4  
 March 06, 2006

**FORM 4**

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

OMB APPROVAL

OMB Number: 3235-0287  
 Expires: January 31, 2005  
 Estimated average burden hours per response... 0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
 ANTONELLI RICHARD

2. Issuer Name and Ticker or Trading Symbol  
 UNITED NATURAL FOODS INC  
 [UNFI]

5. Relationship of Reporting Person(s) to Issuer  
 (Check all applicable)

(Last) (First) (Middle)  
 C/O UNITED NATURAL FOODS INC, 260 LAKE ROAD  
 (Street)

3. Date of Earliest Transaction (Month/Day/Year)  
 03/03/2006

Director  10% Owner  
 Officer (give title below)  Other (specify below)  
 Chief Operating Officer

DAYVILLE, CT 06241

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

(City) (State) (Zip)

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V Amount (D) Price			
Common Stock	03/03/2006		M	15,000 A \$ 28.14	23,400	D	
Common Stock	03/03/2006		S	15,000 D \$ 34.765	8,400 <sup>(1)</sup>	D	
Common Stock					2,191	I	See footnote <u>(2)</u>

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not**

SEC 1474 (9-02)

required to respond unless the form displays a currently valid OMB control number.

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)		
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Employee Stock Option (right to buy)	\$ 28.14	03/03/2006		M	15,000	12/01/2005	12/01/2014	Common Stock	15,000

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
ANTONELLI RICHARD C/O UNITED NATURAL FOODS INC 260 LAKE ROAD DAYVILLE, CT 06241	X		Chief Operating Officer	

## Signatures

Mark Shamber (Power of Attorney, in fact) 03/06/2006

\_\_Signature of Reporting Person

Date

## Explanation of Responses:

\* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Represents 8,400 shares of restricted stock vesting in four equal installments beginning on 12/8/2006.

(2) Includes 2,191 shares of common stock allocated to Mr. Antonelli under the United Natural Foods, Inc. Employee Stock Ownership Plan as of March 6, 2006.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. border="0" cellpadding="0" cellspacing="0" id="hangingindent" width="100%"

style="MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; MARGIN-RIGHT: 0pt">(v)

furnishing or performing management services for a savings bank subsidiary of such company;



- (vi) holding, managing or liquidating assets owned or acquired from a savings subsidiary of such company;
- (vii) holding or managing properties used or occupied by a savings bank subsidiary of such company;
- (viii) acting as trustee under deeds of trust;
- (ix) any other activity:

(A) that the Federal Reserve Board, by regulation, has determined to be permissible for bank holding companies under Section 4(c) of the Bank Holding Company Act of 1956, unless the Director, by regulation, prohibits or limits any such activity for savings and loan holding companies; or

(B) in which multiple savings and loan holding companies were authorized (by regulation) to directly engage on March 5, 1987;

(x) any activity permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act, including securities and insurance underwriting; and

(xi) purchasing, holding, or disposing of stock acquired in connection with a qualified stock issuance if the purchase of such stock by such savings and loan holding company is approved by the Director. If a mutual holding company acquires or merges with another holding company, the holding company acquired or the holding company resulting from such merger or acquisition may only invest in assets and engage in activities listed in (i) through (x) above, and has a period of two years to cease any nonconforming activities and divest any nonconforming investments.

The Home Owners' Loan Act prohibits a savings and loan holding company, including FSB Community Bankshares, Inc. and FSB Community Bankshares, MHC, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or holding company thereof, without prior written approval of the Office of Thrift Supervision. It also prohibits the acquisition or retention of, with certain exceptions, more than 5% of a nonsubsidiary company engaged in activities other than those permitted by the Home Owners' Loan Act, or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Office of Thrift Supervision must consider the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors.

The Office of Thrift Supervision is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions:

- (i) the approval of interstate supervisory acquisitions by savings and loan holding companies; and
- (ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions.

The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

**Waivers of Dividends by FSB Community Bankshares, MHC.** Office of Thrift Supervision regulations require FSB Community Bankshares, MHC to notify the Office of Thrift Supervision of any proposed waiver of its receipt of dividends from FSB Community Bankshares, Inc. The Office of Thrift Supervision reviews dividend waiver notices on a case-by-case basis, and, in general, does not object to any such waiver if:

- (i) the waiver would not be detrimental to the safe and sound operation of the subsidiary savings association; and
- (ii) the mutual holding company's board of directors determines that such waiver is consistent with such directors' fiduciary duties to the mutual holding company's members.

We anticipate that FSB Community Bankshares, MHC will waive any dividends paid by FSB Community Bankshares, Inc. Under Office of Thrift Supervision regulations, our public shareholders would not be diluted because of any dividends waived by FSB Community Bankshares, MHC (and waived dividends would not be considered in determining an appropriate exchange ratio) in the event FSB Community Bankshares, MHC converts to stock form.

**Conversion of FSB Community Bankshares, MHC to Stock Form.** Office of Thrift Supervision regulations permit FSB Community Bankshares, MHC to convert from the mutual form of organization to the capital stock form of organization. There can be no assurance when, if ever, a conversion transaction will occur, and the board of directors has no current intention or plan to undertake a conversion transaction. In a conversion transaction a new stock holding company would be formed as the successor to FSB Community Bankshares, Inc., FSB Community Bankshares, MHC's corporate existence would end, and certain depositors and borrowers of Fairport Savings Bank would receive the right to subscribe for additional shares of the new holding company. In a conversion transaction, each share of common stock held by shareholders other than FSB Community Bankshares, MHC would be automatically converted into a number of shares of common stock of the new holding company determined pursuant an exchange ratio that ensures that shareholders other than FSB Community Bankshares, MHC own the same percentage of common stock in the new holding company as they owned in FSB Community Bankshares, Inc. immediately prior to the conversion transaction, subject to adjustment for any assets held by FSB Community Bankshares, MHC.

## **Federal Securities Laws**

We have filed with the Securities and Exchange Commission a registration statement under the Securities Act of 1933 for the registration of the shares of common stock to be issued pursuant to the stock offering. Upon completion of the stock offering, our common stock will be registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934. We will be subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

The registration under the Securities Act of 1933 of shares of common stock to be issued in the stock offering does not cover the resale of those shares. Shares of common stock purchased by persons who are not our affiliates may be resold without registration. Shares purchased by our affiliates will be subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If we meet the current public information requirements of Rule 144 under the Securities Act of 1933, each affiliate of ours that complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of our outstanding shares, or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, we may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

## **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act of 2002, our Chief Executive Officer and Chief Financial Officer each will be required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the Securities and Exchange Commission under the Sarbanes-Oxley Act of 2002 have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the board of directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting. We will prepare policies, procedures and systems designed to ensure compliance with these regulations.

## MANAGEMENT

### Shared Management Structure

The directors of FSB Community Bankshares, Inc. are those same persons who are the directors of Fairport Savings Bank. In addition, each executive officer of FSB Community Bankshares, Inc. is also an executive officer of Fairport Savings Bank. We expect that FSB Community Bankshares, Inc. and Fairport Savings Bank will continue to have common executive officers until there is a business reason to establish separate management structures. To date, directors and executive officers have been compensated for their services only to Fairport Savings Bank. In the future, directors and executive officers could receive additional compensation for their services to FSB Community Bankshares, Inc.

### Directors of FSB Community Bankshares, Inc. and Fairport Savings Bank

The boards of directors of FSB Community Bankshares, Inc. and Fairport Savings Bank each currently consist of nine members. Directors serve three-year staggered terms so that approximately one-third of the directors are elected at each annual meeting of shareholders. The table below sets forth information regarding the current members of the boards of directors, including the term of office for each board member.

Directors	Age <sup>(1)</sup>	Position	Director Since	Term Expires
D. Lawrence Keef	74	Director	1997	2008
Gary Lindsay	64	Director	2007	2008
Terence O'Neil	64	Vice Chairman of the Board	1998	2008
Lowell T. Twitchell	64	Director	1984	2008
Thomas J. Hanss	67	Chairman of the Board	1999	2009
James E. Smith	60	Director	1991	2009
Dana C. Gavenda	55	President, Chief Executive Officer and Director	2002	2010
Robert W. Sturn	64	Director	2000	2010
Charis W. Warshof	57	Director	2002	2010

(1) As of December 31, 2006.

### Board Independence

The Board of Directors has determined that each of our directors, with the exception of Messrs. Gavenda and Sturn, is "independent" as defined in the listing standards of the Nasdaq Stock Market. Mr. Gavenda is not independent because he is one of our executive officers, and Mr. Sturn is not independent because until July 2004 he served as one of our executive officers.

### The Business Background of Our Directors

The business experience for the past five years of each of our directors is set forth below. Unless otherwise indicated, directors have held their positions for the past five years.

**D. Lawrence Keef** is retired. Prior to his retirement in 1994, Mr. Keef had a 30 year career in banking, with a primary emphasis on commercial real estate lending.





**Gary Lindsay** is a practicing certified public accountant. Prior to founding his accounting practice in 1991, from 1974 until 1991, Mr. Lindsay was a tax partner with KPMG, LLP.

**Terence O'Neil** is retired. Prior to his retirement in 2005, since 1980 Mr. O'Neil was the owner and President of Green Lantern Inn, a restaurant located in Fairport, New York.

**Thomas J. Hanss** is retired. Prior to his retirement in 1994, from 1982 until 1986, Mr. Hanss was chief financial officer of a banking subsidiary of Manufacturers Hanover. Mr. Hanss is a licensed certified public accountant in the State of New York.

**Lowell T. Twitchell** is retired. Prior to his retirement in 2001, from 1979 until 2001 Mr. Twitchell served as President of Fairport Savings Bank.

**James E. Smith** is the Supervisor of the Town of Perinton, New York, an elected office that he has held since 1984.

**Dana C. Gavenda** has been our President and Chief Executive Officer since December 2001. Mr. Gavenda has been in banking since the inception of his career in 1973.

**Robert W. Sturn** is retired. Prior to his retirement in July 2004, from 1994 until 2004, Mr. Sturn was Executive Vice President of Fairport Savings Bank in which role he managed Fairport Savings Bank's mortgage operations.

**Charis W. Warshof** is Vice President, Investors Relations with Home Properties, Inc., a real estate investment trust located in Rochester, New York, a position she has held since 2001.

#### **Meetings and Committees of the Boards of Directors**

We conduct business through meetings of our board of directors and its committees. During the year ended December 31, 2006, the board of directors of FSB Community Bankshares, Inc. met four times and the board of directors of Fairport Savings Bank met 13 times. The board of directors has established the following committees: the Audit Committee; the Compensation/Benefits/Marketing Committee; the Nominating Committee; and the ALCO Committee.

The Audit Committee consists of Messrs. Hanss (chair), O'Neill, Twitchell and Lindsay. This committee is responsible for providing oversight relating to our financial statements and financial reporting process, systems of internal accounting and financial controls, internal audit function, annual independent audit and the compliance and ethics programs established by management and the board. Each member of the Audit Committee is independent in accordance with the listing standards of the Nasdaq Stock Market and also under the applicable federal securities laws. The Audit Committee met four times during the year ended December 31, 2006.

The Compensation/Benefits/Marketing Committee consists of Messrs. Sturn (Chair), Warshof and Smith. This committee is responsible for executive officer and director compensation and benefits. Mr. Sturn is not currently considered independent under the listing standards of the Nasdaq Stock Market. Following completion of the offering, it is expected that the Compensation/Benefits/Marketing Committee will consist only of directors who are deemed to be independent in accordance with the listing standards of the Nasdaq Stock Market. The Compensation/Benefits/Marketing Committee met five times during the year ended December 31, 2006.

The Nominating Committee consists of Messrs. Hanss (chair), Smith and Keef, each of whom is independent in accordance with the listing standards of the Nasdaq Stock Market. The Nominating Committee met four times during the year ended December 31, 2006.

The full board of directors comprises the Assets and Liabilities Committee (“ALCO”). ALCO met four times during the year ended December 31, 2006.

### **Executive Officers Who Are Not Directors**

The table below sets forth information, as of December 31, 2006, regarding our executive officers who are not directors.

<b>Name</b>	<b>Title</b>	<b>Age</b>
Kevin D. Maroney	Senior Vice President and Chief Financial Officer	49
Leslie J. Zornow	Senior Vice President, Retail Banking	42

The executive officers of FSB Community Bankshares, Inc. and Fairport Savings Bank are elected annually and hold office until their respective successors are elected or until death, resignation, retirement or removal by the board of directors.

### **The Business Background of Our Executive Officers Who Are Not Directors**

The business experience for the past five years of each of our executive officers who is not a director is set forth below. Unless otherwise indicated, executive officers have held their positions for the past five years.

**Kevin D. Maroney** is our Senior Vice President and Chief Financial Officer, positions he has held since 2004. Prior to his employment with Fairport Savings Bank, from 1993 until 2004, Mr. Maroney served as senior vice president/finance and operations officer with Wyoming County Bank, Wanoa, New York.

**Leslie J. Zornow** is our Senior Vice President, Retail Banking, positions she has held since January 2004. Prior to her employment with Fairport Savings Bank, in 2003, Ms. Zornow served as interim President of the Geneva Chamber of Commerce, Geneva, New York and from 1996 until 2003 served as an executive officer of Savings Bank of the Finger Lakes where she oversaw the institution’s branch network, marketing and human resources.

**Executive Compensation**

The following table sets forth for the year ended December 31, 2006 certain information as to the total remuneration paid by us to Dana C. Gavenda, who serves as our President and Chief Executive Officer, and our two most highly compensated executive officers other than Mr. Gavenda. Each of the individuals listed in the table below is referred to as a Named Executive Officer.

Name and principal position	Year	All other compensation			Total (\$)
		Salary (\$)	Bonus (\$)	(\$)	
Dana C. Gavenda President, Chief Executive Officer	2006	\$ 140,000	\$ 24,865	\$ 62,945 <sup>(1)</sup>	\$ 227,810
Kevin D. Maroney Senior Vice President and Chief Financial Officer	2006	\$ 91,366	\$ 11,928	\$ 12,275 <sup>(2)</sup>	\$ 115,569
Leslie J. Zornow Senior Vice President, Retail Banking	2006	\$ 80,496	\$ 10,443	\$ 9,976 <sup>(3)</sup>	\$ 100,915

(1) Includes \$28,513 credited to Mr. Gavenda under Fairport Savings Bank's supplemental executive retirement plan and does not include any earnings. Also includes employer contributions to the 401(k) Plan of \$21,433, which consists of a \$16,487 employer profit sharing contribution (i.e., 10% of Mr. Gavenda's 2006 adjusted Form W-2 compensation), and an employer "401(k) safe harbor" contribution of \$4,946 (i.e., 3% of Mr. Gavenda's 2006 adjusted Form W-2 compensation). Also includes a one-time country club initiation fee as well as monthly dues for country club membership. Includes an allowance for an automobile.

(2) Consists of employer contributions to the 401(k) Plan.

(3) Consists of employer contributions to the 401(k) Plan.

**Benefit Plans**

**Employment Agreement.** Fairport Savings Bank entered into an employment agreement with Dana C. Gavenda effective as of March 1, 2006. The agreement has an initial term of three years. Unless notice of non-renewal is provided, the agreement renews annually such that the remaining term of the agreement is three years. After the initial three-year term under the agreement, if Mr. Gavenda receives timely notification of the board's intention not to renew the agreement on the next anniversary date, the agreement shall cease one year following such anniversary date. Under the agreement, Mr. Gavenda's base salary for the year beginning March 1, 2007 is \$147,500 and the base salary for the year beginning March 1, 2008 will be \$155,000. Mr. Gavenda's base salary is subject to annual approval which is conducted by the Compensation/Benefits/Marketing Committee of the board, and may be increased or decreased. In addition to the base salary, the agreement provides for, among other things, participation in bonus programs and other employee pension benefit and fringe benefit plans applicable to executive employees, and use of an automobile and reimbursement of expenses associated with the use of such automobile. Mr. Gavenda is also entitled to reimbursement of business expenses. Mr. Gavenda's employment may be terminated for "just cause" (as defined in the next sentence) at any time, in which event Mr. Gavenda would have no right to receive compensation or other benefits for any period after termination. "Just cause" means termination of Mr. Gavenda's employment by a vote of at least a majority of the entire membership of the board because of (i) Mr. Gavenda's personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule or regulation (other than traffic violations or similar offenses); or (ii) a final cease-and-desist order regarding Mr. Gavenda's employment with Fairport Savings Bank; or (iii) Mr. Gavenda's willful commission of any act that, in the judgment of the board, would likely cause substantial economic damage to Fairport Savings Bank; or (iv) Mr. Gavenda's material breach of any provision of the employment agreement.



Mr. Gavenda is entitled to severance payments and benefits in the event of his termination of employment under specified circumstances. In the event Mr. Gavenda's employment is terminated by Fairport Savings Bank for reasons other than just cause, disability, death, retirement or a "change in control," (as defined in the employment agreement) or in the event Mr. Gavenda resigns during the term of the agreement following (1) the failure to elect or reelect or to appoint or reappoint Mr. Gavenda to his executive position, (2) a material change in Mr. Gavenda's functions, duties, or responsibilities, which change would cause Mr. Gavenda's position to become one of lesser responsibility, importance or scope, (3) a relocation of Mr. Gavenda's principal place of employment by more than 30 miles from its location at the effective date of the employment agreement or a material reduction in the benefits and perquisites from those being provided to Mr. Gavenda as of the effective date of the employment agreement, (4) the liquidation or dissolution of Fairport Savings Bank, or (5) a material breach of the employment agreement by Fairport Savings Bank, Mr. Gavenda (or, in the event of Mr. Gavenda's death, his beneficiary) would be entitled to a severance payment equal to the greater of (i) the remaining amount due under the agreement or (ii) the sum of the highest base salary paid to Mr. Gavenda under the agreement, plus the greater of (x) the average annual cash bonus paid to Mr. Gavenda under the agreement during the last three years prior to the termination date or (y) the cash bonus paid to Mr. Gavenda for the most recent fiscal year prior to the termination. Such severance shall be paid as a lump sum within 30 days of Mr. Gavenda's termination of employment, or, if Internal Revenue Code Section 409A applies to such payment, then the payment shall be made on the first day of the seventh month following Mr. Gavenda's termination of employment. Additionally, Mr. Gavenda would be entitled to the continuation of life, medical, disability and dental coverage for 36 months. In the event these severance payment provisions of the employment agreement are triggered, as of December 31, 2006, Mr. Gavenda would be entitled to a cash severance benefit in the amount of approximately \$490,000.

In the event of a termination following a "change in control" (as defined in the employment agreement) of Fairport Savings Bank or FSB Community Bankshares, Inc., Mr. Gavenda (or, in the event of his death, his beneficiary) would be entitled to a severance payment equal to three times the sum of (i) Mr. Gavenda's highest base salary during the term of the employment agreement and (ii) the greater of (x) the average annual cash bonus paid to Mr. Gavenda under the agreement during the last three years prior to the termination date or (y) the cash bonus paid to Mr. Gavenda for the most recent fiscal year prior to the termination. Such severance shall be paid as a lump sum within 30 days of Mr. Gavenda's termination of employment, or, if Internal Revenue Code Section 409A applies to such payment, then the payment shall be made on the first day of the seventh month following Mr. Gavenda's termination of employment. Additionally, Mr. Gavenda would be entitled to the continuation of life, medical, disability and dental coverage for 36 months. Any payments to Mr. Gavenda would be reduced, if necessary, so as not to be an "excess parachute payment" as defined by Code Section 280G (relating to payments made in connection with a change in control). In the event these severance payment provisions of the employment agreement are triggered, as of December 31, 2006, Mr. Gavenda would be entitled to a cash severance benefit in the amount of approximately \$490,000.

Should Mr. Gavenda become “disabled” (as defined in the next sentence) during the term of the agreement, Fairport Savings Bank would pay Mr. Gavenda 65% of base salary until the earliest of the time that executive returns to his duties at Fairport Savings Bank, or attains full-time employment with another employer, or attains the age of 65, or until Mr. Gavenda’s death, provided that any amount paid to Mr. Gavenda pursuant to any disability insurance would reduce the compensation he would receive. Mr. Gavenda would also be entitled to continued life and health care coverage substantially identical to the coverage he had before becoming disabled during the period that he is receiving disability benefits. “Disabled” means that (i) Mr. Gavenda is unable to perform his duties by reason of incapacity or illness and Mr. Gavenda shall have been absent from his duties on a full-time basis for six months within any twelve month period; or (ii) Mr. Gavenda has experienced a mental or physical condition which, in the reasonable opinion of the disinterested members of the board, makes Mr. Gavenda unable or incompetent to properly carry out the duties of his position; or (iii) if necessary to comply with Internal Revenue Code Section 409A, “disabled” shall have the meaning required under Code Section 409A. The board may require that Mr. Gavenda be examined by a physician selected by the board and the decision of the physician regarding Mr. Gavenda’s disability status shall be conclusive and binding on all parties.

In the event Mr. Gavenda dies while employed by Fairport Savings Bank, Mr. Gavenda’s beneficiary or estate will be paid Mr. Gavenda’s base salary for one year, and Mr. Gavenda’s family will be entitled to continuation of medical, dental and other insurance benefits for one year.

Upon termination of Mr. Gavenda’s employment other than in connection with a change in control or disability, Mr. Gavenda agrees for a period of two years following termination of employment not to serve as an officer, director or consultant with any financial institution operating in Monroe County, New York with assets of less than \$1.0 billion.

**Supplemental Retirement Plan.** Effective May 1, 2006, Fairport Savings Bank established a Supplemental Executive Retirement Plan (“SERP”) with Dana C. Gavenda, its Chief Executive Officer. Under the terms of the SERP, on May 1, 2006 and on each anniversary date thereafter through the earlier of May 1, 2015 or the date Mr. Gavenda terminates employment, Fairport Savings Bank will credit a specified amount to Mr. Gavenda’s accrued SERP obligation account (the “SERP Benefit”). The maximum aggregate value of the SERP Benefit as of May 1, 2015 will be \$493,765, which is intended to provide a 15-year period certain annuity of approximately \$50,000 per year. The SERP Benefit will not be credited with earnings nor debited for losses or expenses. Mr. Gavenda is 100% vested in his SERP Benefit at all times. The SERP Benefits will be paid to Mr. Gavenda in equal monthly installments for 15 years, beginning on the date that is six months after the later of (i) the date he terminates employment or (ii) attains age 65. In the event Mr. Gavenda dies while receiving payments, his designated beneficiary shall continue to receive the remaining payments. If Mr. Gavenda dies before he is eligible to receive payments, the SERP Benefit shall be forfeited.

If Mr. Gavenda's employment is terminated for "cause" (as defined in the next sentence), then he will forfeit all SERP Benefits. "Cause" means of termination of Mr. Gavenda's employment due to any of the following: (a) engaging in willful or grossly negligent misconduct that is materially injurious to Fairport Savings Bank; (b) embezzlement or misappropriation of the funds or property of Fairport Savings Bank; (c) conviction of a felony or the entrance of a plea of guilty or nolo contendere to a felony; (d) conviction of any crime involving fraud, dishonesty, moral turpitude or breach of trust or the entrance of a plea of guilty to such a crime; (e) failure or refusal to devote full business time and attention to the performance of his duties, if such breach has not been cured within 15 days after notice is given; issuance of a final non-appealable order or other direction by a federal or state regulatory agency prohibiting Mr. Gavenda's employment in the business of banking; or (g) violation of a non-compete or non-solicitation agreement.

In the event Mr. Gavenda terminates employment due to "disability" (as defined in the next sentence), the SERP Benefit shall be paid to him in a lump sum no later than 90 days after the date he terminated employment. Mr. Gavenda shall be treated as having a "disability" if: (a) he is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; or (b) he is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of Fairport Savings Bank.

In the event of a "change in control" (as defined in the SERP) of Fairport Savings Bank, the SERP Benefit shall be paid to Mr. Gavenda in a lump sum as soon as administratively feasible but no later than 90 days after his termination of employment following the change in control, unless such payments are subject to Internal Revenue Code Section 409A, in which case such payment will be made on the first day of the seventh month following Mr. Gavenda's termination of employment. In the event the SERP is terminated, the SERP Benefit shall be paid to Mr. Gavenda in the form of equal monthly installments starting on the first day of the calendar month that is 12 months after the termination of the SERP and ending no later than 24 months after the termination of the SERP (or such other payment schedule as may be required in order to comply with Internal Revenue Code Section 409A).

**401(k) Plan.** Fairport Savings Bank sponsors a 401(k) plan for eligible employees who have attained age 21 and completed six months of service. The Plan allows employees to contribute from 1% to 100% of their annual salary subject to statutory limitations. Each year, Fairport Savings Bank contributes 3% of each eligible employee's adjusted Form W-2 compensation to the Plan as a "basic 401(k) safe harbor" contribution. In addition, Fairport Savings Bank may make a discretionary profit sharing contribution of each eligible employees' annual adjusted Form W-2 compensation. In 2006, the profit sharing contribution was equal to 10% of eligible employees' adjusted Form W-2 compensation.

## Stock Benefit Plans

**Employee Stock Ownership Plan and Trust.** The Board of Directors of Fairport Savings Bank intends to adopt an employee stock ownership plan in connection with the stock offering. Employees who are at least 21 years old with at least one year of employment with Fairport Savings Bank are eligible to participate. As part of the stock offering, the employee stock ownership plan trust intends to borrow funds from FSB Community Bankshares, Inc. and use those funds to purchase a number of shares equal to 3.92% of the outstanding shares of common stock, including shares of common stock issued to FSB Community Bankshares, MHC. Collateral for the loan will be the common stock purchased by the employee stock ownership plan. The loan will be repaid principally from discretionary contributions by Fairport Savings Bank to the employee stock ownership plan over a period of not more than 20 years. The loan documents will provide that the loan may be repaid over a shorter period, without penalty for prepayments. It is anticipated that the interest rate on the loan will equal the prime interest rate at the closing of the stock offering, and will adjust annually at the beginning of each calendar year.

The shares purchased with the loan will initially be held in a suspense account and will be allocated to participants' accounts in the employee stock ownership plan as the loan is repaid. Participants will have no interest in the shares in the suspense account and will only have an interest in the shares actually allocated to their accounts as the loan is repaid. Contributions to the employee stock ownership plan and shares released from the suspense account in an amount proportional to the repayment of the employee stock ownership plan loan will be allocated among employee stock ownership plan participants on the basis of compensation in the year of allocation. Benefits under the plan will become vested at the rate of 20% per year, starting upon completion of two years of credited service, and will be fully vested upon completion of six years of credited service, with credit given to participants for up to three years of credited service with Fairport Savings Bank's mutual predecessor prior to the adoption of the plan. A participant's interest in his account under the plan will also fully vest in the event of termination of service due to a participant's normal retirement, death, disability, or upon a change in control (as defined in the plan). Vested benefits will be payable generally in the form of common stock, or to the extent participants' accounts contain cash, benefits will be paid in cash. Fairport Savings Bank's contributions to the employee stock ownership plan are discretionary, subject to the loan terms and tax law limits. Therefore, benefits payable under the employee stock ownership plan cannot be estimated. Pursuant to SOP 93-6, we will be required to record compensation expense each year in an amount equal to the fair market value of the shares released from the suspense account. In the event of a change in control, the employee stock ownership plan will terminate.

**Stock-Based Benefit Plan.** Following the stock offering, we intend to adopt a stock-based benefit plan that will provide for grants of stock options and awards of shares of common stock. Under current Office of Thrift Supervision regulations, the number of options granted or shares awarded under such a plan may not exceed 4.90% and 1.96%, respectively, of our outstanding shares (including shares issued to FSB Community Bankshares, MHC). Under current Office of Thrift Supervision regulations, the number of options granted or shares awarded under the plan, when aggregated with any subsequently adopted stock-based benefit plans (exclusive of any shares held by any employee stock ownership plan), may not exceed 25% of the number of shares of common stock held by persons other than FSB Community Bankshares, MHC.



The stock-based benefit plan will comply with all applicable regulations of the Office of Thrift Supervision. The stock-based benefit plan cannot be established sooner than six months after the stock offering and would require the approval of our shareholders by a majority of the total votes of FSB Community Bankshares, Inc. eligible to be cast (excluding votes eligible to be cast by FSB Community Bankshares, MHC), unless we obtain a waiver from the Office of Thrift Supervision that would allow the approval of the stock-based benefit plan by a majority of votes cast by our shareholders (excluding shares voted by FSB Community Bankshares, MHC). Unless a waiver is obtained from the Office of Thrift Supervision, the following additional Office of Thrift Supervision restrictions would apply to our stock-based benefit plan:

- non-employee directors in the aggregate may not receive more than 30% of the options and awards authorized under the plan;
- any one non-employee director may not receive more than 5% of the options and stock awards authorized under the plan;
- any officer or employee may not receive more than 25% of the options or stock awards authorized under the plan;
- the options and awards may not vest more rapidly than 20% per year, beginning on the first anniversary of shareholder approval of the plan; and
- accelerated vesting of awards is not permitted except for death, disability or upon a change in control of Fairport Savings Bank or FSB Community Bankshares, Inc.

We may obtain the shares needed for this plan by issuing additional shares of common stock from authorized but unissued shares or through stock repurchases.

The Office of Thrift Supervision has proposed amendments to its existing regulations regarding stock-based benefit plans that would permit us to grant options and award shares of common stock under a stock-based benefit plan in excess of 4.90% and 1.96%, respectively, of our total outstanding shares if the stock-based benefit plan is adopted more than one year following the stock offering, provided shares used to fund the plan in excess of these amounts are obtained through stock repurchases. The proposed amendments would also require that, if the stock-based benefit plan is adopted less than one year following the stock offering, the stock-based benefit plan must be approved by a majority of the votes of FSB Community Bankshares, Inc. shareholders cast at an annual or special meeting of shareholders, excluding votes eligible to be cast by FSB Community Bankshares, MHC. Under the proposed amendments, there would be no separate vote required of minority shareholders if the stock-based benefit plan is adopted more than one year following completion of the stock offering. The proposed amendments would further provide that the current regulatory restrictions set forth above regarding the amount of individual and group awards, and restrictions on accelerated vesting of awards, would not apply if the stock-based benefit plan is adopted more than one year following the stock offering.

**In the event the Office of Thrift Supervision adopts these regulations as proposed, or otherwise changes its existing regulations or policies, we may implement stock-based benefit plans that exceed the current limits applicable to aggregate and/or relative amounts of stock options or stock awards, as well as individual awards, and otherwise grant awards with terms that are different than those required by current Office of Thrift Supervision regulations and policy. Moreover, to the extent that any new regulations or policies contain a more flexible voting standard for shareholder approval than that currently required, we intend to use the more flexible voting standard, which could result in the vote of FSB Community Bankshares, MHC controlling the outcome of a shareholder vote on stock-based benefit plans.**

### Director Compensation

FSB Community Bankshares, Inc. pays no fees for service on the Board of Directors or Board committees. However, each of the individuals who currently serves as one of our directors also serves as a director of Fairport Savings Bank and earns fees in that capacity. Each non-employee director receives a fee of \$700 for each scheduled monthly meeting, and receives \$300 for attendance at meetings of the Audit Committee, Compensation/Benefits/ Marketing Committee, Nominating Committee and ALCO Committee. In addition to these fees, Director Keef received a fee of \$4,000 for serving as the Chairman of the Board and a fee of \$275 for serving as the chairman of the nominating committee; Director Smith received a fee of \$250 for serving as Vice Chairman of the Board; and Director Hanss received a fee of \$1,300 for his role as chairman of the audit committee. Fairport Savings Bank paid fees totaling \$90,625 to its ten board members during the year ended December 31, 2006.

The following table sets forth for the year ended December 31, 2006 certain information as to the total remuneration we paid to our directors other than Mr. Gavenda. Compensation paid to Mr. Gavenda for his service as a director is included in "Executive Compensation—Summary Compensation Table."

Name	Fees earned or paid in	
	cash (\$)	Total (\$)
D. Lawrence Keef	\$ 16,275	\$ 16,275
Gary Lindsay(1)	—	—
Terence O'Neill	12,400	12,400
Lowell T. Twitchell	12,050	12,050
Thomas J. Hanss	13,700	13,700
James E. Smith	12,950	12,950
Robert W. Sturn	10,900	10,900
Charis W. Warshof	11,150	11,150
Sara E. Hartman(2)	1,200	1,200

(1) Mr. Lindsay first became a director in 2007.

(2) Ms. Hartman left the board of directors in January 2006.

## **Related Party Transactions**

***Loans and Extensions of Credit.*** The Sarbanes-Oxley Act of 2002 generally prohibits us from making loans to our executive officers and directors, but it contains a specific exemption from such prohibition for loans made by Fairport Savings Bank to our executive officers and directors in compliance with federal banking regulations.

The aggregate amount of our outstanding loans to our officers and directors and their related entities was approximately \$803,000 at December 31, 2006. All of such loans were made in the ordinary course of business, were made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectibility or present other unfavorable features. These loans were performing according to their repayment terms at December 31, 2006, and were made in compliance with federal banking regulations.

## **Proposed Management and Director Purchases in the Stock Offering**

The following table sets forth information regarding intended common stock subscriptions by each of the directors and executive officers of FSB Community Bankshares, Inc. and Fairport Savings Bank and their associates, and by all directors and executive officers as a group. In the event the individual maximum purchase limitation is increased, persons subscribing for the maximum amount may increase their purchase orders. Directors and executive officers will purchase shares of common stock at the same \$10.00 purchase price per share and on the same terms as other purchasers in the stock offering. Any purchases made by any of our affiliates for the explicit purpose of meeting the minimum number of shares of common stock required to be sold in order to complete the stock offering shall be made for investment purposes only and not with a view toward distribution. This table excludes shares of common stock to be purchased by the employee stock ownership plan, as well as any stock awards or stock option grants that may be made no earlier than six months after the completion of the stock offering. This table also excludes additional shares that may be purchased by our directors and executive officers following the completion of the stock offering. The directors and executive officers have indicated their intention to subscribe for an aggregate of \$295,000 of shares of common stock in the stock offering, equal to 3.0% of the number of shares of common stock to be sold in the stock offering, at the midpoint of the estimated valuation range.

<b>Name and Title</b>	<b>Number of Shares</b>	<b>Aggregate Purchase Price (1)</b>	<b>Percent at Midpoint of Offering Range</b>
D. Lawrence Keef, Director	1,000	10,000	*
Gary Lindsay, Director	1,000	10,000	*
Terence O'Neil, Vice Chairman of the Board	1,000	10,000	*
Lowell T. Twitchell, Director	1,000	10,000	*
Thomas J. Hanss, Chairman of the Board	5,000	50,000	*
James E. Smith, Director	1,000	10,000	*
Dana C. Gavenda, President, Chief Executive Officer and Director	10,000	100,000	1.0
Robert W. Sturn, Director	1,000	10,000	*
Charis W. Warshof, Director	3,000	30,000	*
Kevin Maroney, Senior Vice President and Chief Financial Officer	5,000	50,000	*
Leslie J. Zornow, Senior Vice President, Retail Banking	500	5,000	*
All directors and executive officers as a group	29,500	\$ 295,000	3.0%

\* Less than 0.1%.

(1) Includes purchases by the individual's spouse and other relatives of the named individual living in the same household. The above named individuals are not aware of any other purchases by a person who, or entity that would be considered an associate of the named individuals under the stock issuance plan.

## THE STOCK OFFERING

**The board of directors of FSB Community Bankshares, Inc. has approved the stock issuance plan, and the Office of Thrift Supervision has approved the stock issuance plan as part of its approval of our application to conduct the stock offering, subject to the satisfaction of certain conditions imposed by the Office of Thrift Supervision in its approval. Office of Thrift Supervision approval does not constitute a recommendation or endorsement of the stock issuance plan by the Office of Thrift Supervision.**

### General

On January 24, 2007, our board of directors unanimously adopted the stock issuance plan pursuant to which we will sell shares of our common stock to depositors and eligible borrowers of Fairport Savings Bank and other persons, and issue shares of our common stock to FSB Community Bankshares, MHC. Upon completion of the stock offering, purchasers in the stock offering will own 47.0% of our outstanding shares of common stock (subject to adjustment), and FSB Community Bankshares, MHC will own 53.0% of our outstanding shares of common stock (subject to adjustment).

The aggregate price of the shares of common stock sold in the stock offering will be within the offering range. The offering range of between \$8.4 million and \$11.4 million has been established by the board of directors, based upon an independent appraisal of the estimated pro forma market value of our shares of common stock. The appraisal was prepared by RP Financial, LC, a consulting firm experienced in the valuation and appraisal of savings institutions. All shares of common stock to be sold in the stock offering will be sold at the same price per share. The independent appraisal will be affirmed or, if necessary, updated at the completion of the stock offering. See "How We Determined the Stock Pricing and the Number of Shares to be Issued" for additional information as to the determination of the estimated pro forma market value of the shares of common stock.

Offering materials for the stock offering initially have been distributed by mail, with additional copies made available through our Stock Information Center and Sandler O'Neill & Partners, L.P. All prospective purchasers must send payment directly to us. We will deposit these funds in a segregated savings account at Fairport Savings Bank or, at our discretion, another federally insured depository institution, and we will not release the funds until the stock offering is completed or terminated.

The following describes the material aspects of the stock offering. Prospective purchasers should also carefully review the terms of the stock issuance plan. A copy of the stock issuance plan is available from Fairport Savings Bank upon request and is available for inspection at the offices of Fairport Savings Bank and at the Office of Thrift Supervision. The plan is also filed as an exhibit to the Registration Statement of which this prospectus is a part, copies of which may be obtained from the Securities and Exchange Commission. See "Where You Can Find More Information."

## Reasons for the Stock Offering

The proceeds from the sale of our shares of common stock will provide Fairport Savings Bank with additional capital, which may be used to support future growth, internally or through acquisitions. In addition, since Fairport Savings Bank competes with local and regional banks and other entities for employees, we believe that the stock offering will enable us to attract and retain management and employees through various stock benefit plans, including stock option plans, stock award plans and an employee stock ownership plan.

In the future, the unissued shares of common and preferred stock authorized by our charter, as well as any treasury shares that may have been repurchased, will permit us to raise additional equity capital through further sales of securities and may permit us to issue securities in connection with possible acquisitions, subject to market conditions and any required regulatory approvals. We currently have no plans with respect to additional offerings of common or preferred stock.

The stock offering proceeds will provide additional flexibility to grow through acquisitions of other financial institutions or other businesses. Although there are no current arrangements, understandings or agreements, written or oral, regarding any such opportunities, we will be in a position after the stock offering to take advantage of any such favorable opportunities that may arise. See “How We Intend to Use the Proceeds from the Stock Offering” for a description of our intended use of proceeds.

After considering the advantages and disadvantages of the stock offering, as well as applicable fiduciary duties, our board of directors unanimously approved the stock issuance plan as being in the best interests of FSB Community Bankshares, Inc., Fairport Savings Bank, and Fairport Savings Bank’s customers and the communities we serve.

## Offering of Shares of Common Stock

Under the stock issuance plan, up to 1,135,050 shares, subject to adjustment of our common stock will be offered for sale, subject to certain restrictions described below, through a subscription and community offering.

**Subscription Offering.** The subscription offering will expire at \_\_\_\_\_, Eastern time, on [offering date], unless otherwise extended by Fairport Savings Bank and FSB Community Bankshares, Inc. Regulations of the Office of Thrift Supervision require that all shares to be offered in the stock offering be sold within a period ending not more than 90 days after Office of Thrift Supervision approval of the use of the prospectus or a longer period as may be approved by the Office of Thrift Supervision. This period expires on [extension date], unless extended with the approval of the Office of Thrift Supervision. If the stock offering is not completed by [extension date], all subscribers will have the right to modify or rescind their subscriptions and to have their subscription funds returned promptly with interest. In the event of an extension of this type, all subscribers will be notified in writing of the time period within which subscribers must notify Fairport Savings Bank of their intention to maintain, modify or rescind their subscriptions. If the subscriber rescinds or does not respond in any manner to Fairport Savings Bank’s notice, the funds submitted will be refunded to the subscriber with interest at Fairport Savings Bank’s current passbook savings rate, and/or the subscriber’s withdrawal authorizations will be terminated. In the event that the stock offering is not completed, all funds submitted and not previously refunded pursuant to the subscription and community offering will be promptly refunded with interest at Fairport Savings Bank’s current passbook savings rate, and all withdrawal authorizations will be terminated.

**Subscription Rights.** Under the stock issuance plan, nontransferable subscription rights to purchase the shares of common stock have been issued to persons and entities as described below. The amount of shares of common stock that these persons may purchase will depend on the availability of the shares of common stock for purchase under the categories described in the stock issuance plan. Subscription priorities have been established for the allocation of shares of common stock to the extent that the shares are available. These priorities are as follows:

**Category 1: Eligible Account Holders.** Subject to the maximum purchase limitations, each depositor with \$50 or more on deposit at Fairport Savings Bank, as of the close of business on December 31, 2005, will receive nontransferable subscription rights to subscribe for up to the greater of the following:

- (i) \$100,000 of shares of common stock;
- (ii) one-tenth of one percent of the total offering of shares of common stock; or
- (iii) 15 times the product, rounded down to the nearest whole number, obtained by multiplying the total number of shares of common stock to be sold in the stock offering by a fraction, the numerator of which is the amount of the qualifying deposits of the eligible account holder and the denominator is the total amount of qualifying deposits of all eligible account holders.

If the exercise of subscription rights in this category results in an oversubscription, shares of common stock will be allocated among subscribing eligible account holders so as to permit each one, to the extent possible, to purchase a number of shares sufficient to make the person's total allocation equal to the lesser of 100 shares or the number of shares for which such person has subscribed. Thereafter, unallocated shares will be allocated among the remaining subscribing eligible account holders whose subscriptions remain unfilled in the proportion that the amounts of their respective qualifying deposits bear to the total amount of qualifying deposits of all remaining eligible account holders whose subscriptions remain unfilled; however, no fractional shares will be issued. If the amount so allocated exceeds the amount subscribed for by any one or more eligible account holder, the excess will be reallocated, one or more times as necessary, among those eligible account holders whose subscriptions are still not fully satisfied on the same principle until all available shares have been allocated or all subscriptions satisfied. Subscription rights received by officers and directors in this category based on any increase in their deposits in Fairport Savings Bank in the one-year period preceding December 31, 2005, are subordinated to the subscription rights of other eligible account holders.

**Category 2: Tax-Qualified Employee Plans.** The tax-qualified employee plans of Fairport Savings Bank, such as the employee stock ownership plan and the 401(k) savings plan, have nontransferable subscription rights to purchase up to 4.9% of the shares of common stock to be outstanding immediately following the stock offering. The employee stock ownership plan intends to purchase 3.92% of the shares of our outstanding shares of common stock unless additional purchases are required to complete the stock offering at the minimum of the offering range. In the event the number of shares offered in the stock offering is increased above the maximum of the valuation range, the tax-qualified employee plans will have a priority to purchase any shares exceeding the maximum of the valuation range up to 4.9% of the shares of common stock to be outstanding immediately following the stock offering. In addition to purchasing shares of common stock in the stock offering, the employee stock ownership plan may purchase shares of common stock in the open market or may purchase shares of common stock directly from us subsequent to the completion of the stock offering.

**Category 3: Supplemental Eligible Account Holders.** To the extent that there are sufficient shares of common stock remaining after satisfaction of subscriptions by eligible account holders and the tax-qualified employee plans, and subject to the maximum purchase limitations, each depositor with \$50 or more on deposit as of the close of business on March 31, 2007, will receive nontransferable subscription rights to subscribe for up to the greater of:

- (i) \$100,000 of shares of common stock;
- (ii) one-tenth of one percent of the total offering of shares of common stock; or
- (iii) 15 times the product, rounded down to the nearest whole number, obtained by multiplying the total number of shares of common stock to be sold in the stock offering, the numerator of which is the amount of qualifying deposits of the supplemental eligible account holder and the denominator is the total amount of qualifying deposits of all supplemental eligible account holders.

If the exercise of subscription rights in this category results in an oversubscription, shares of common stock will be allocated among subscribing supplemental eligible account holders so as to permit each supplemental eligible account holder, to the extent possible, to purchase a number of shares sufficient to make his or her total allocation equal to the lesser of 100 shares or the number of shares for which such person has subscribed. Thereafter, unallocated shares will be allocated among subscribing supplemental eligible account holders whose subscriptions remain unfilled in the proportion that the amounts of their respective qualifying deposits bear to total qualifying deposits of all subscribing supplemental eligible account holders.



**Category 4: Other Members.** To the extent that there are sufficient shares of common stock remaining after satisfaction of subscriptions by eligible account holders, the tax-qualified employee plans and supplemental eligible account holders, and subject to the maximum purchase limitations, each depositor with \$50 or more on deposit at Fairport Savings Bank at the close of business on \_\_\_\_\_, 2007, who is neither an Eligible Account Holder or Supplemental Eligible Account Holder and each borrower from Fairport Savings Bank as of January 14, 2005 who maintains such borrowings as of the close of business on \_\_\_\_\_, 2007, who is neither an Eligible Account Holder nor Supplemental Eligible Account Holder (“Other Members”), will receive nontransferable subscription rights to subscribe for up to the greater of:

(i) \$100,000 of shares of common stock; or

(ii) one-tenth of one percent of the total offering of shares of common stock; or

(iii) with respect to Other Members who are depositors of Fairport Savings Bank, 15 times the product, rounded down to the nearest whole number, obtained by multiplying the total number of shares of common stock to be sold in the stock offering by a fraction, the numerator of which is the amount of qualifying deposits of the Other Members who are depositors of Fairport Savings Bank and the denominator of which is the total amount of qualifying deposits of all Other Members who are depositors of Fairport Savings Bank.

If the exercise of subscription rights in this category results in an oversubscription, shares of common stock will be allocated among subscribing Other Members so as to permit each Other Member, to the extent possible, to purchase a number of shares sufficient to make his or her total allocation equal to the lesser of 100 shares or the number of shares for which such person actually subscribed. Thereafter, unallocated shares will be allocated among subscribing Other Members whose subscriptions remain unfilled in the proportion that the amounts of their respective subscriptions bear to total subscriptions of all subscribing Other Members.

We will make reasonable efforts to comply with the securities laws of all states in the United States in which persons entitled to subscribe for shares of common stock pursuant to the stock issuance plan reside. However, no shares of common stock will be offered or sold under the stock issuance plan to any person who resides in a foreign country or resides in a state of the United States in which a small number of persons otherwise eligible to subscribe for shares under the stock issuance plan reside or as to which we determine that compliance with the securities laws of the state would be impracticable for reasons of cost or otherwise, including, but not limited to, a requirement that Fairport Savings Bank or FSB Community Bankshares, Inc. or any of their officers, directors or employees register, under the securities laws of the state, as a broker, dealer, salesman or agent. No payments will be made in lieu of the granting of subscription rights to any person.

**Community Offering.** We will offer, in a community offering to members of the general public to whom we deliver a copy of this prospectus and a stock order form, any shares of common stock that remain unsubscribed for in the subscription offering. In the community offering, preference will be given to natural persons residing in the New York Counties of Livingston, Monroe, Ontario, Orleans and Wayne (the “Local Community”). Subject to the maximum purchase limitations, these persons may purchase up to \$100,000 of shares of common stock. The community offering, if any, may begin concurrently with, during or promptly after the subscription offering, and may terminate at any time without notice, but may not terminate later than [extension date], unless extended by FSB Community Bankshares, Inc. Subject to any required regulatory approvals, we will determine, in our discretion, the advisability of a community offering, the commencement and termination dates of any community offering, and the methods of finding potential purchasers in such offering. The opportunity to subscribe for shares of common stock in the community offering category is subject to our right, in our sole discretion, to accept or reject these orders in whole or in part either at the time of receipt of an order or as soon as practicable thereafter.



If there are not sufficient shares of common stock available to fill orders in the community offering, the shares of common stock will be allocated, if possible, first to each natural person residing in the Local Community whose order we accept, in an amount equal to the lesser of 1,000 shares of common stock or the number of shares of common stock ordered. Thereafter, unallocated shares of common stock will be allocated among persons residing in the Local Community whose orders remain unsatisfied, on an equal number of shares basis. If there are any shares of common stock remaining, shares will be allocated to other members of the general public who order in the community offering applying the same allocation described above for persons who reside in the Local Community.

***Syndicated Community Offering.*** All shares of common stock not purchased in the subscription and community offerings, if any, may be offered for sale to the general public in a syndicated community offering through a syndicate of registered broker-dealers to be formed and managed by Sandler O'Neill & Partners, L.P. We expect to market any shares of common stock that remain unsubscribed after the subscription and community offerings through a syndicated community offering. We have the right to reject orders in whole or part in our sole discretion in the syndicated community offering. Neither Sandler O'Neill & Partners, L.P. nor any registered broker-dealer shall have any obligation to take or purchase any shares of common stock in the syndicated community offering; however, in the event Sandler O'Neill & Partners, L.P. agrees to participate in a syndicated community offering, it will use its best efforts in the sale of shares of common stock in the syndicated community offering.

The price at which shares of common stock are sold in the syndicated community offering will be the same price as in the subscription and community offerings. Subject to the overall purchase limitations, no person by himself or herself may purchase more than \$100,000 of shares of common stock.

Sandler O'Neill & Partners, L.P. may enter into agreements with selected dealers to assist in the sale of the shares of common stock in the syndicated community offering. No orders may be placed or filled by or for a selected dealer during the subscription offering. After the close of the subscription offering, Sandler O'Neill & Partners, L.P. will instruct selected dealers as to the number of shares of common stock to be allocated to each selected dealer. Only after the close of the subscription offering and upon allocation of shares to selected dealers may selected dealers take orders from their customers. During the subscription and community offerings, selected dealers may only solicit indications of interest from their customers to place orders with us as of a certain order date for the purchase of shares of common stock. When and if we, in consultation with Sandler O'Neill & Partners, L.P., believe that enough indications of interest and orders have not been received in the subscription and community offerings to consummate the stock offering, we will instruct Sandler O'Neill & Partners, L.P. to request, as of the order date, selected dealers to submit orders to purchase shares for which they have previously received indications of interest from their customers. Selected dealers will send confirmations of the orders to customers on the next business day after the order date. Selected dealers will debit the accounts of their customers on the settlement date, which date will be three business days from the order date. Customers who authorize selected dealers to debit their brokerage accounts are required to have the funds for payment in their account on but not before the settlement date. On the settlement date, selected dealers will remit funds to the account we establish for each selected dealer. Each customer's funds so forwarded, along with all other accounts held in the same title, will be insured by the Federal Deposit Insurance Corporation up to the maximum amount permissible under applicable Federal Deposit Insurance Corporation regulations. After we receive payment from selected dealers, funds will earn interest at Fairport Savings Bank's passbook rate until the completion or termination of the stock offering. Funds will be promptly returned, with interest, in the event the stock offering is not completed as described above.

The syndicated community offering will terminate no more than 45 days following the subscription expiration date, unless extended by FSB Community Bankshares, Inc. with the approval of the Office of Thrift Supervision.

**Limitations on Purchase of Shares.** The plan provides for certain limitations on the purchase of shares of common stock in the stock offering. These limitations are as follows:

- A. The aggregate amount of outstanding shares of our common stock owned or controlled by persons other than FSB Community Bankshares, MHC at the close of the stock offering shall be less than 50% of our total outstanding shares of common stock.
- B. The maximum purchase of shares of common stock in the subscription offering by a person or group of persons through a single deposit account is \$100,000. No person by himself, or with an associate or group of persons acting in concert, may purchase more than \$150,000 of the common stock offered in the stock offering, except that:
- (i) we may, in our sole discretion and without further notice to or solicitation of subscribers or other prospective purchasers, increase such maximum purchase limitation to 5% of the number of shares offered in the stock offering;
  - (ii) our tax-qualified employee plans may purchase up to 4.9% of the shares of common stock to be outstanding immediately following the stock offering; and
  - (iii) shares to be held by any of our tax-qualified employee plans and attributable to a person shall not be aggregated with other shares purchased directly by or otherwise attributable to such person.
- C. The aggregate amount of shares of common stock acquired in the stock offering, plus all prior issuances by FSB Community Bankshares, Inc., by any of our non-tax-qualified employee plans or any of our officers or directors and his or her associates, exclusive of any shares of common stock acquired by such plan or management person and his or her associates in the secondary market, shall not exceed 4.9% of our outstanding shares of common stock at the conclusion of the stock offering. In calculating the number of shares held by any management person and his or her associates under this paragraph, shares held by any tax-qualified employee plan or non-tax-qualified employee plan of FSB Community Bankshares, Inc. or Fairport Savings Bank that are attributable to such person shall not be counted.

- D. The aggregate amount of shares of common stock acquired in the stock offering, plus all prior issuances by FSB Community Bankshares, Inc., by any of our non-tax-qualified employee plans or any of our officers or directors and his or her associates, exclusive of any shares of common stock acquired by such plan or management person and his or her associates in the secondary market, shall not exceed 4.9% of our shareholders' equity at the conclusion of the stock offering. In calculating the number of shares held by any management person and his or her associates under this paragraph, shares held by any tax-qualified employee plan or non-tax-qualified employee plan of FSB Community Bankshares, Inc. or Fairport Savings Bank that are attributable to such person shall not be counted.
- E. The aggregate amount of shares of common stock acquired in the stock offering, plus all prior issuances by FSB Community Bankshares, Inc., by any one or more of our tax-qualified employee stock benefit plans, exclusive of any shares of common stock acquired by such plans in the secondary market, shall not exceed 4.9% of our outstanding shares of common stock at the conclusion of the stock offering.
- F. The aggregate amount of shares of common stock acquired in the stock offering, plus all prior issuances by FSB Community Bankshares, Inc., by any one or more of our tax-qualified employee stock benefit plans, exclusive of any shares of common stock acquired by such plans in the secondary market, shall not exceed 4.9% of our shareholders' equity at the conclusion of the stock offering.
- G. The aggregate amount of shares of common stock acquired in the stock offering, plus all prior issuances by FSB Community Bankshares, Inc., by all stock benefit plans of FSB Community Bankshares, Inc. or Fairport Savings Bank, other than employee stock ownership plans, shall not exceed 25% of our outstanding shares of common stock held by persons other than FSB Community Bankshares, MHC.
- H. The aggregate amount of shares of common stock acquired in the stock offering, plus all prior issuances by FSB Community Bankshares, Inc., by all non-tax-qualified employee plans or our officers or directors and their associates, exclusive of any shares of common stock acquired by such plans or management persons and their associates in the secondary market, shall not exceed 25% of our outstanding shares of common stock held by persons other than FSB Community Bankshares, MHC at the conclusion of the stock offering. In calculating the number of shares held by management persons and their associates under this paragraph, shares held by any of our tax-qualified employee plans or non-tax-qualified employee plans that are attributable to such persons shall not be counted.
- I. The aggregate amount of shares of common stock acquired in the stock offering, plus all prior issuances by FSB Community Bankshares, Inc., by all non-tax-qualified employee stock benefit plans or management persons and their associates, exclusive of any shares of common stock acquired by such plans or management persons and their associates in the secondary market, shall not exceed 25% of our shareholders' equity held by persons other than FSB Community Bankshares, MHC at the conclusion of the stock offering. In calculating the number of shares held by management persons and their associates under this paragraph, shares held by any of our tax-qualified employee plans or non-tax-qualified employee plans that are attributable to such persons shall not be counted.

J. Notwithstanding any other provision of the stock issuance plan, no person shall be entitled to purchase any shares of common stock to the extent such purchase would be illegal under any federal law or state law or regulation or would violate regulations or policies of the National Association of Securities Dealers, Inc., particularly those regarding free riding and withholding. We and/or our agents may ask for an acceptable legal opinion from any purchaser as to the legality of such purchase and may refuse to honor any purchase order if such opinion is not timely furnished.

K. A minimum of 25 shares of common stock must be purchased by each person purchasing shares in the stock offering to the extent those shares are available; provided, however, that in the event the minimum number of shares of common stock purchased times the price per share exceeds \$500, then such minimum purchase requirement shall be reduced to such number of shares which when multiplied by the price per share shall not exceed \$500, as determined by our board of directors.

Our board of directors has the right in its sole discretion to reject any order submitted by a person whose representations our board of directors believes to be false or who it otherwise believes, either alone or acting in concert with others, is violating, circumventing, or intends to violate, evade or circumvent the terms and conditions of the stock issuance plan.

For purposes of the plan, the members of our board of directors are not deemed to be acting in concert solely by reason of their board membership. The term “associate” is used above to indicate any of the following relationships with a person:

- any corporation or organization, other than FSB Community Bankshares, MHC, FSB Community Bankshares, Inc. or Fairport Savings Bank or a majority-owned subsidiary of FSB Community Bankshares, MHC, FSB Community Bankshares, Inc. or Fairport Savings Bank, of which a person is a senior officer or partner, or beneficially owns, directly or indirectly, 10% or more of any class of equity securities of the corporation or organization;
- any trust or other estate, if the person has a substantial beneficial interest in the trust or estate or is a trustee or fiduciary of the estate. For purposes of Office of Thrift Supervision Regulations Sections 563b.370, 563b.380, 563b.385, 563b.390 and 563b.505, a person who has a substantial beneficial interest in one of our tax-qualified or non-tax-qualified employee plans, or who is a trustee or fiduciary of the plan is not an associate of the plan. For purposes of Section 563b.370 of the Office of Thrift Supervision Regulations, our tax-qualified employee plans are not associates of a person;

any person who is related by blood or marriage to such person and:

(i) who lives in the same house as the person; or

(ii) who is a director or senior officer of FSB Community Bankshares, MHC, FSB Community Bankshares, Inc. or Fairport Savings Bank or a subsidiary thereof; and

any person acting in concert with the persons or entities specified above.

As used above, the term “acting in concert” means:

· knowing participation in a joint activity or interdependent conscious parallel action towards a common goal, whether or not pursuant to an express agreement; or

· a combination or pooling of voting or other interests in the securities of an issuer for a common purpose pursuant to any contract, understanding, relationship, agreement or other arrangement, whether written or otherwise.

A person or company that acts in concert with another person or company (“other party”) shall also be deemed to be acting in concert with any person or company who is also acting in concert with that other party, except that any of our tax-qualified employee plans will not be deemed to be acting in concert with its trustee or a person who serves in a similar capacity solely for the purpose of determining whether stock held by the trustee and stock held by the plan will be aggregated.

Persons or companies who file jointly with any regulatory agency a Schedule 13-D or Schedule 13-G under the Securities Exchange Act of 1934 with respect to any security registered under Section 12 of such act will be deemed to be acting in concert.

Our board of directors may, in its sole discretion, increase the maximum purchase limitation up to 9.99% of the shares being offered in the stock offering. However, orders for shares exceeding 5.0% of the shares sold may not exceed, in the aggregate, 10% of the shares sold. Requests to purchase shares of common stock under this provision will be allocated by our board of directors in accordance with the priority rights and allocation procedures set forth above. Depending upon market and financial conditions, and subject to certain regulatory limitations, our board of directors, with the approval of the Office of Thrift Supervision, may increase or decrease any of the above purchase limitations at any time. In computing the number of shares of common stock to be allocated, all numbers will be rounded down to the next whole number.

Shares of common stock purchased in the stock offering will be freely transferable except for shares of common stock purchased by executive officers and directors of Fairport Savings Bank or FSB Community Bankshares, Inc. and except as described below. In addition, under National Association of Securities Dealers, Inc. guidelines, members of the National Association of Securities Dealers and their associates are subject to certain restrictions on transfer of securities purchased in accordance with subscription rights and to certain reporting requirements upon purchase of these securities.

## Tax Effects of the Stock Offering

We have received an opinion from our special counsel, Luse Gorman Pomerenk & Schick, P.C., Washington, D.C., as to the material federal income tax consequences of the stock offering to FSB Community Bankshares, Inc. and as to the generally applicable material federal income tax consequences of the stock offering to our account holders and persons who purchase common stock in the stock offering. This opinion is based, among other things, on factual representations made by us, on certain assumptions stated in the opinion, on the Internal Revenue Code, regulations now in effect or proposed, current administrative rulings, practices and judicial authority, all of which are subject to change (which change may be made with retroactive effect). This opinion has been included as an exhibit to our registration statement filed with the Securities and Exchange Commission, of which this prospectus is a part.

The opinion provides, among other things, that:

1. we will not recognize gain or loss upon the exchange by FSB Community Bankshares, MHC of the shares of our common stock that it presently holds for the shares of our common stock that will be issued to it in connection with the stock offering;
2. no gain or loss or taxable income will be recognized by eligible account holders, supplemental eligible account holders or other members upon the distribution to them or their exercise of nontransferable subscription rights to purchase our shares of common stock;
3. it is more likely than not that the tax “basis” of our shares of common stock to persons who purchase shares in the stock offering will be the purchase price thereof, and that their holding period for the shares will commence upon the consummation of the stock offering; and
4. no gain or loss will be recognized by us on our receipt of cash in exchange for shares of our common stock sold in the stock offering.

The tax opinions as to items 2 and 3 above are based on the position that subscription rights to be received by eligible account holders, supplemental eligible account holders and other members do not have any economic value at the time of distribution or at the time the subscription rights are exercised. In this regard, Luse Gorman Pomerenk & Schick, P.C. noted that the subscription rights will be granted at no cost to the recipients, are legally non-transferable and of short duration, and will provide the recipient with the right only to purchase shares of common stock at the same price to be paid by members of the general public in any community offering. The firm also noted that the Internal Revenue Service has not in the past concluded that subscription rights have value. However, as stated in the opinion, the issue of whether or not the nontransferable subscription rights have value is based on all the facts and circumstances.



The opinion of Luse Gorman Pomerenk & Schick, P.C., unlike a letter ruling issued by the Internal Revenue Service, is not binding on the Internal Revenue Service and the conclusions expressed therein may be challenged at a future date. The Internal Revenue Service has issued favorable rulings for transactions substantially similar to the stock offering, but any such ruling may not be cited as precedent by any taxpayer other than the taxpayer to whom the ruling is addressed. We do not plan to apply for a letter ruling concerning the transactions described herein.

We also have received a letter from RP Financial, LC stating its belief that the subscription rights do not have any ascertainable fair market value and that the price at which the subscription rights are exercisable will not be more or less than the fair market value of the shares on the date of the exercise. This position is based on the fact that these rights are acquired by the recipients without cost, are nontransferable and of short duration, and afford the recipients the right only to purchase the shares of common stock at the same price as will be paid by members of the general public in any community offering.

If the subscription rights granted to eligible account holders, supplemental eligible account holders and other members are deemed to have an ascertainable value, receipt of these rights could result in taxable gain to those eligible account holders, supplemental eligible account holders and other members who exercise the subscription rights in an amount equal to the ascertainable value, and we could recognize gain on a distribution. Eligible account holders, supplemental eligible account holders and other members are encouraged to consult with their own tax advisors as to the tax consequences in the event that subscription rights are deemed to have an ascertainable value.

The federal tax opinion referred to in this prospectus is filed as an exhibit to the registration statement. See “Where You Can Find More Information.”

### **Restrictions on Transferability of Subscription Rights**

Federal law prohibits the transfer of subscription rights. We may reasonably investigate to determine compliance with this restriction. Persons selling or otherwise transferring their rights to subscribe for shares of common stock in the subscription offering or subscribing for shares of common stock on behalf of another person may forfeit those rights and may face possible further sanctions and penalties imposed by the Office of Thrift Supervision or another agency of the United States Government. **We will pursue any and all legal and equitable remedies in the event we become aware of the transfer of subscription rights and we will not honor orders known by us to involve the transfer of these rights.** Each person exercising subscription rights will be required to certify that he or she is purchasing shares solely for his or her own account and that he or she has no agreement or understanding with any other person for the sale or transfer of the shares of common stock. In addition, joint stock registration will be allowed only if the qualifying account is so registered. Once tendered, subscription orders cannot be revoked without our consent.

## Marketing Arrangements

We have retained Sandler O'Neill & Partners, L.P. as a financial advisor to consult with and advise and assist us, on a best efforts basis, in the distribution of shares in the stock offering. Sandler O'Neill & Partners, L.P. is a broker-dealer registered with the Securities and Exchange Commission and a member of the National Association of Securities Dealers, Inc. The services that Sandler O'Neill & Partners, L.P. will provide include:

- consulting as to the marketing implications of the stock issuance, including the percentage of common stock to be offered;
- reviewing with our board of directors the financial impact of the stock offering on FSB Community Bankshares, Inc. and Fairport Savings Bank based on the independent appraiser's appraisal of the shares of common stock;
- reviewing all stock offering documents, including the prospectus, stock order forms and related offering materials;
  - assisting in the design and implementation of a marketing strategy for the stock offering;
- assisting us in scheduling and preparing for meetings with potential investors and broker-dealers in connection with the stock offering; and
- providing such other general advice and assistance as may be requested to promote the successful completion of the stock offering.

For these services, Sandler O'Neill will receive a fee of \$150,000, of which \$25,000 has been paid as of the date of this prospectus. In the event there is a syndicated community offering, the total fees paid to Sandler O'Neill and other National Association of Securities Dealers member firms in the syndicated community offering will not exceed 5.5% of the aggregate dollar amount of the shares of common stock sold in the syndicated community offering.

We have agreed to reimburse Sandler O'Neill for its reasonable out-of-pocket expenses up to a maximum of \$60,000. We will indemnify Sandler O'Neill against liabilities and expenses (including legal fees) incurred in connection with certain claims or liabilities arising out of or based upon untrue statements or omissions contained in the offering materials for the shares of common stock, including liabilities under the Securities Act of 1933.

We have also engaged Sandler O'Neill to act as our conversion agent in connection with the stock offering. In its role as conversion agent, Sandler O'Neill will assist us in the stock offering as follows:

- consolidation of accounts and development of a central file;
- preparation of stock order forms;

organization and supervision of the Stock Information Center; and  
subscription services.

Sandler O'Neill & Partners, L.P. has not prepared any report or opinion constituting a recommendation or advice to us or to persons who subscribe for shares of common stock, nor has it prepared an opinion as to the fairness to us of the purchase price or the terms of the stock to be sold. Sandler O'Neill & Partners, L.P. expresses no opinion as to the prices at which shares of common stock to be issued may trade.

Our directors and executive officers may participate in the stock offering. However, such participation will be limited to answering questions about FSB Community Bankshares, Inc. and Fairport Savings Bank. In addition, trained employees may provide ministerial services, such as providing clerical work in effecting a sales transaction or answering questions of a ministerial nature. Questions by prospective purchasers regarding the stock offering process will be directed to registered representatives of Sandler O'Neill. We will rely on Rule 3a4-1 under the Securities Exchange Act of 1934, as amended, so as to permit officers, directors and employees to participate in the sale of the common stock. No officer, director or employee will be compensated for his or her participation by the payment of commissions or other remuneration based either directly or indirectly on the transactions in the shares of common stock.

### **Description of Sales Activities**

We will offer the shares of common stock in the subscription offering and community offering principally by the distribution of this prospectus and through activities conducted at our Stock Information Center. The Stock Information Center is expected to operate during normal business hours throughout the subscription offering and community offering. It is expected that at any particular time one or more Sandler O'Neill & Partners, L.P. employees will be working at the Stock Information Center. Employees of Sandler O'Neill & Partners, L.P. will be responsible for mailing materials relating to the stock offering, responding to questions regarding the stock offering and processing stock orders.

Sales of shares of common stock will be made by registered representatives affiliated with Sandler O'Neill & Partners, L.P. or by the selected dealers managed by Sandler O'Neill & Partners, L.P. Our officers and employees may participate in the offering in clerical capacities, providing administrative support in effecting sales transactions or, when permitted by state securities laws, answering questions of a mechanical nature relating to the proper execution of the order form. Our officers may answer questions regarding our business when permitted by state securities laws. Other questions of prospective purchasers, including questions as to the advisability or nature of the investment, will be directed to registered representatives. Our officers and employees have been instructed not to solicit offers to purchase shares of common stock or provide advice regarding the purchase of shares of common stock.

None of our officers, directors or employees will be compensated, directly or indirectly, for any activities in connection with the offer or sale of securities issued in the stock offering.

None of our personnel participating in the stock offering is registered or licensed as a broker or dealer or an agent of a broker or dealer. Our personnel will assist in the above-described sales activities under an exemption from registration as a broker or dealer provided by Rule 3a4-1 promulgated under the Securities Exchange Act of 1934. Rule 3a4-1 generally provides that an “associated person of an issuer” of securities will not be deemed a broker solely by reason of participation in the sale of securities of the issuer if the associated person meets certain conditions. These conditions include, but are not limited to, that the associated person participating in the sale of an issuer’s securities is not compensated in connection with the offering at the time of participation, that the person is not associated with a broker or dealer and that the person observes certain limitations on his or her participation in the sale of securities. For purposes of this exemption, “associated person of an issuer” is defined to include any person who is a director, officer or employee of the issuer or a company that controls, is controlled by or is under common control with the issuer.

### **How We Determined the Stock Pricing and the Number of Shares to be Issued**

The stock issuance plan and federal regulations require that the aggregate purchase price of the shares of common stock sold in the stock offering be based on the appraised pro forma market value of the shares of common stock, as determined on the basis of an independent valuation. We retained RP Financial, LC to make the independent valuation. RP Financial, LC will receive a fee of \$30,000 for the preparation of the initial and final independent valuations, and will receive a fee of \$5,000 for any additional updates to the independent valuation. We have agreed to indemnify RP Financial, LC and its employees and affiliates against certain losses (including any losses in connection with claims under the federal securities laws) arising out of its services as appraiser, except where RP Financial, LC’s liability results from its negligence or bad faith.

The independent valuation was prepared by RP Financial, LC in reliance upon the information contained in the prospectus, including the financial statements. RP Financial, LC also considered the following factors, among others:

- our present and projected operating results and financial condition and the economic and demographic conditions in our existing market area;
- historical, financial and other information relating to FSB Community Bankshares, Inc. and Fairport Savings Bank;
- a comparative evaluation of our operating and financial statistics with those of other publicly traded subsidiaries of holding companies;
  - the impact of the stock offering on our shareholders’ equity and earnings potential;
  - our proposed dividend policy; and
- the trading market for securities of comparable institutions and general conditions in the market for such securities.

On the basis of the foregoing, RP Financial, LC advised us that as of February 23, 2007, the estimated pro forma market value of the shares of common stock on a fully converted basis ranged from a minimum of \$17.9 million to a maximum of \$24.2 million, with a midpoint of \$21.0 million (the estimated valuation range). Our board of directors determined to offer the shares of common stock in the stock offering at the purchase price of \$10.00 per share and that 47.0% of the shares issued should be held by purchasers in the stock offering and 53.0% should be held by FSB Community Bankshares, MHC. Based on the estimated valuation range and the purchase price of \$10.00 per share, the number of shares of common stock that we will issue will range from 1,785,000 shares to 2,415,000 shares, with a midpoint of 2,100,000 shares, and the number of shares sold in the stock offering will range from 838,950 shares to 1,135,050 shares, with a midpoint of 987,000 shares.

Our board of directors reviewed the independent valuation and, in particular, considered our financial condition and results of operations for the year ended December 31, 2006, financial comparisons to other financial institutions, and stock market conditions for financial institutions and other issuers generally, all of which are set forth in the independent valuation. The board also reviewed the methodology and the assumptions used by RP Financial, LC in preparing the independent valuation, and concluded that the methodology and assumptions were reasonable. The estimated valuation range may be amended with the approval of the Office of Thrift Supervision, if necessitated by subsequent developments in our financial condition or market conditions generally.

Following commencement of the subscription offering, the maximum of the estimated valuation range may be increased up to \$27.8 million and the maximum number of shares that will be outstanding immediately following the stock offering may be increased up to 2,777,250 shares. Under such circumstances, the number of shares sold in the stock offering will be increased up to 1,305,308 shares and the number of shares held by FSB Community Bankshares, MHC will be increased up to 1,471,942 shares. The increase in the valuation range may occur to reflect changes in market conditions, without the resolicitation of subscribers. The minimum of the estimated valuation range and the minimum of the offering range may not be decreased without a resolicitation of subscribers. The purchase price of \$10.00 per share will remain fixed. See “—Limitations On Purchase of Shares” as to the method of distribution and allocation of additional shares of common stock that may be issued in the event of an increase in the offering range to fill unfilled orders in the subscription and community offerings.

The independent valuation is not intended, and must not be construed, as a recommendation of any kind as to the advisability of purchasing shares of our common stock. RP Financial, LC did not independently verify the financial statements and other information we provided, nor did RP Financial, LC value independently our assets or liabilities. The independent valuation considers us as a going concern and should not be considered as an indication of our liquidation value. Moreover, because the valuation is necessarily based upon estimates and projections of a number of matters, all of which are subject to change from time to time, no assurance can be given that persons purchasing shares in the stock offering will thereafter be able to sell such shares at prices at or above the purchase price.

The independent valuation will be updated at the time of the completion of the stock offering. If the update to the independent valuation at the conclusion of the stock offering results in an increase in the pro forma market value of the shares of common stock to more than \$3.08 billion or a decrease in the pro forma market value to less than \$17.9 million, then, after consulting with the Office of Thrift Supervision, we may terminate the stock issuance plan and return all funds promptly, with interest on payments made by check, certified or teller's check, bank draft or money order, extend or hold a new subscription offering, community offering, or both, establish a new offering range, commence a resolicitation of subscribers or take such other actions as may be permitted by the Office of Thrift Supervision, in order to complete the stock offering. In the event that a resolicitation is commenced, unless an affirmative response is received within a reasonable period of time, all funds will be returned promptly to investors as described above. A resolicitation, if any, following the conclusion of the subscription and community offerings would not exceed 45 days unless further extended by the Office of Thrift Supervision, for periods of up to 90 days, not to extend beyond 24 months following date of the approval by the Office of Thrift Supervision of the stock issuance plan, or [final date].



An increase in the independent valuation and the number of shares to be issued in the stock offering would decrease both a subscriber's ownership interest and our pro forma earnings and shareholders' equity on a per share basis while increasing pro forma earnings and shareholders' equity on an aggregate basis. A decrease in the independent valuation and the number of shares of common stock to be issued in the stock offering would increase both a subscriber's ownership interest and our pro forma earnings and shareholders' equity on a per share basis while decreasing pro forma net income and shareholders' equity on an aggregate basis. For a presentation of the effects of such changes, see "Pro Forma Data."

Copies of the appraisal report of RP Financial, LC and the detailed memorandum of the appraiser setting forth the method and assumptions for such appraisal are available for inspection at the main office of Fairport Savings Bank and the other locations specified under "Where You Can Find More Information."

No sale of shares of common stock may occur unless, prior to such sale, RP Financial, LC confirms to the Office of Thrift Supervision and us that, to the best of its knowledge, nothing of a material nature has occurred that, taking into account all relevant factors, would cause RP Financial, LC to conclude that the independent valuation is incompatible with its estimate of the pro forma market value of the shares of common stock at the conclusion of the stock offering. Any change that would result in an aggregate purchase price that is below the minimum or above the maximum of the estimated valuation range would be subject to approval of the Office of Thrift Supervision. If such confirmation is not received, we may extend the stock offering, reopen the stock offering or commence a new stock offering, establish a new estimated valuation range and commence a resolicitation of all purchasers with the approval of the Office of Thrift Supervision, or take such other actions as permitted by the Office of Thrift Supervision, in order to complete the stock offering.

#### **Prospectus Delivery and Procedure for Purchasing Shares**

***Prospectus Delivery.*** To ensure that each purchaser receives a prospectus at least 48 hours prior to the end of the stock offering, in accordance with Rule 15c2-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), no prospectus will be mailed later than five days or hand delivered any later than two days prior to the end of the stock offering. Execution of the order form will confirm receipt or delivery of a prospectus in accordance with Rule 15c2-8. Order forms will be distributed only with a prospectus. Neither we nor Sandler O'Neill & Partners, L.P. is obligated to deliver a prospectus and an order form by any means other than the U.S. Postal Service.

**Expiration Date.** The stock offering will terminate at \_\_\_\_\_, Eastern time, on [offering date], unless extended by us for up to 90 days following the date of Office of Thrift Supervision approval of the use of this prospectus, which is \_\_\_\_\_, 2007, or, if approved by the Office of Thrift Supervision, for an additional period after [extension date] (as so extended, the “expiration date”). We are not required to give purchasers notice of any extension unless the expiration date is later than [extension date], in which event purchasers will be given the right to increase, decrease, confirm, or rescind their orders.

**Use of Order Forms.** In order to purchase shares of common stock, each purchaser must complete an order form, except for certain persons purchasing in the syndicated community offering as more fully described below. Any person receiving an order form who desires to purchase shares of common stock may do so by delivering to the Stock Information Center, a properly executed and completed order form, together with full payment for the shares of common stock purchased. The order form must be received, not post-marked, by us prior to \_\_\_\_\_, Eastern time, on [offering date]. Each person ordering shares of common stock is required to represent that he or she is purchasing such shares for his or her own account. Our interpretation of the terms and conditions of the stock issuance plan and of the acceptability of the order forms will be final. We are not required to accept copies of order forms.

To ensure that eligible account holders, supplemental eligible account holders and other members are properly identified as to their stock purchase priorities, such parties must list all deposit accounts on the order form giving all names on each deposit account and the account numbers at the applicable eligibility date. Failure to list all of your account relationships, all of which will be reviewed when considering relevant account relationships in the event of an oversubscription of shares of our common stock, could result in a loss of all or part of your share allocation in the event of an oversubscription. In the event of an oversubscription of shares of our common stock, shares will be allocated in accordance with the stock issuance plan. Our interpretation of the terms and conditions of the stock issuance plan and of the acceptability of the order form will be final. If the number of shares allocated to you is less than the number of shares for which you have subscribed, we will first use funds from the check or money order you provided, and secondly from any account from which you have requested that funds be withdrawn.

**We will not accept orders submitted on photocopied or telecopied order forms. Orders cannot and will not be accepted without the execution of the certification appearing on the order form.** We are not required to notify subscribers of incomplete or improperly executed order forms and we have the right to waive or permit the correction of incomplete or improperly executed order forms as long as it is performed before the expiration of the stock offering. We do not represent, however, that we will do so and we have no affirmative duty to notify any prospective subscriber of any such defects.



**Payment for Shares.** Payment for all shares will be required to accompany a completed order form for the purchase to be valid. Payment for shares may be made by check or money order made payable to Fairport Savings Bank, or authorization of withdrawal from a deposit account maintained with Fairport Savings Bank. Third party checks will not be accepted as payment for an order. Appropriate means by which such withdrawals may be authorized are provided in the order forms.

Once a withdrawal amount has been authorized, a hold will be placed on such funds, making them unavailable to the depositor until the stock offering has been completed or terminated. In the case of payments authorized to be made through withdrawal from deposit accounts, all funds authorized for withdrawal will continue to earn interest at the contract rate until the stock offering is completed or terminated.

Interest penalties for early withdrawal applicable to certificate of deposit accounts at Fairport Savings Bank will not apply to withdrawals authorized for the purchase of shares of common stock. However, if a withdrawal results in a certificate of deposit account with a balance less than the applicable minimum balance requirement, the certificate of deposit will be canceled at the time of withdrawal without penalty, and the remaining balance will earn interest at our passbook rate subsequent to the withdrawal.

Payments we receive will be placed in a segregated savings account at Fairport Savings Bank or, at our discretion, another federally insured depository institution, and will be paid interest at Fairport Savings Bank's passbook rate from the date payment is received until the stock offering is completed or terminated. Such interest will be paid by check on all funds held, including funds accepted as payment for shares of common stock, promptly following completion or termination of the stock offering. Subscribers' funds will be transmitted to the segregated account referred to above no later than noon of the next business day where they will be invested in investments that are permissible under SEC Rule 15c2-4.

The employee stock ownership plan will not be required to pay for the shares of common stock it intends to purchase until consummation of the stock offering, provided that there is a loan commitment to lend to the employee stock ownership plan the amount of funds necessary to purchase the number of shares ordered.

Owners of self-directed individual retirement accounts may use the assets of such individual retirement accounts to purchase shares of common stock in the stock offering, provided that the individual retirement accounts are not maintained at Fairport Savings Bank. Persons with individual retirement accounts maintained with us must have their accounts transferred to a self-directed individual retirement account with an unaffiliated trustee in order to purchase shares of common stock in the stock offering. In addition, the Employee Retirement Income Security Act ("ERISA") and Internal Revenue Service regulations require that executive officers, trustees, and 10% shareholders who use self-directed individual retirement account funds and/or Keogh plan accounts to purchase shares of common stock in the stock offering, make such purchase for the exclusive benefit of the individual retirement account and/or Keogh plan participant. Assistance on how to transfer individual retirement accounts maintained at Fairport Savings Bank can be obtained from the Stock Information Center. Depositors interested in using funds in an individual retirement account maintained at Fairport Savings Bank should contact the Stock Information Center as soon as possible.

Once submitted, an order cannot be modified or revoked unless the stock offering is terminated or extended beyond [extension date].

Depending on market conditions, the shares of common stock may be offered for sale to the general public on a best efforts basis in a syndicated community offering by a selling group of broker-dealers to be managed by Sandler O'Neill & Partners, L.P. Sandler O'Neill & Partners, L.P., in its discretion, will instruct selected broker-dealers as to the number of shares of common stock to be allocated to each selected broker-dealer. Only upon allocation of shares of common stock to selected broker-dealers may they take orders from their customers. Investors who desire to purchase shares of common stock in the community offering directly through a selected broker-dealer, which may include Sandler O'Neill & Partners, L.P., will be advised that the members of the selling group are required either:

- (a) upon receipt of an executed order form or direction to execute an order form on behalf of an investor, to forward the appropriate purchase price to us for deposit in a segregated account on or before \_\_\_\_\_, Eastern time, of the business day next following such receipt or execution; or
- (b) upon receipt of confirmation by such member of the selling group of an investor's interest in purchasing shares of common stock, and following a mailing of an acknowledgment by such member to such investor on the business day next following receipt of confirmation, to debit the account of such investor on the third business day next following receipt of confirmation and to forward the appropriate purchase price to us for deposit in the segregated account on or before 12:00 noon, prevailing time, of the business day next following such debiting.

Payment for any shares purchased pursuant to alternative (a) above must be made by check in full payment therefor. Payment for shares of common stock purchased pursuant to alternative (b) above may be made by wire transfer to Fairport Savings Bank.

***Delivery of Stock Certificates.*** Certificates representing shares of common stock issued in the stock offering will be mailed to the persons entitled thereto at the registration address noted on the order form, as soon as practicable following consummation of the stock offering. Any certificates returned as undeliverable will be held by us until claimed by persons legally entitled thereto or otherwise disposed of in accordance with applicable law. Until certificates for the shares of common stock are available and delivered to purchasers, purchasers may not be able to sell the shares of common stock that they ordered.

#### **Restrictions on Purchase or Transfer of Stock by Directors and Officers**

All shares of the common stock purchased by our directors and executive officers and their associates in the stock offering will be subject to the restriction that such shares may not be sold or otherwise disposed of for value for a period of one year following the date of purchase, except for any disposition of such shares following the death of the original purchaser or by reason of an exchange of securities in connection with a merger or acquisition approved by the applicable regulatory authorities. Our directors' and officers' sales of shares of our common stock will also be subject to certain insider trading and other transfer restrictions under the federal securities laws. See "Supervision and Regulation—Federal Securities Laws."

During the three-year period following the stock offering, purchases of our shares of common stock by directors, executive officers, or any person who was an executive officer or director of Fairport Savings Bank after adoption of the stock issuance plan and their associates may be made only through a broker or dealer registered with the Securities and Exchange Commission, except with the prior written approval of the Office of Thrift Supervision. This restriction does not apply, however, to negotiated transactions involving more than 1% of our outstanding shares of common stock or to the purchase of shares of common stock under the stock-based benefit plan expected to be implemented subsequent to completion of the stock offering.

We have filed with the Securities and Exchange Commission a registration statement under the Securities Act of 1933, as amended, for the registration of the sale of shares of common stock to be issued in the stock offering. The registration under the Securities Act of the sale of the common stock to be issued in the stock offering does not cover the resale of the shares of common stock. Shares of common stock purchased by persons who are not our affiliates may be resold without registration. Shares purchased by our affiliates will have resale restrictions under Rule 144 of the Securities Act of 1933. If we meet the current public information requirements of Rule 144, each of our affiliates who complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of certain other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of our outstanding shares of common stock or the average weekly volume of trading in the shares of common stock during the preceding four calendar weeks. In the future, we may permit affiliates to have their shares of common stock registered for sale under the Securities Act of 1933 under certain circumstances.

Under guidelines of the National Association of Securities Dealers, members of the National Association of Securities Dealers and their associates face certain reporting requirements upon purchase of the securities.

### **Interpretation, Amendment and Termination**

All interpretations of the stock issuance plan by our board of directors will be final, subject to the authority of the Office of Thrift Supervision. The stock issuance plan provides that, if deemed necessary or desirable by our board of directors, the plan may be substantially amended by a majority vote of the board of directors as a result of comments from regulatory authorities or otherwise, at any time prior to the approval of the plan by the Office of Thrift Supervision, and at any time thereafter with the concurrence of the Office of Thrift Supervision. The stock issuance plan may be terminated by a majority vote of the board of directors at any time prior to approval of the plan by the Office of Thrift Supervision and may be terminated at any time thereafter with the concurrence of the Office of Thrift Supervision.

## Stock Information Center

If you have any questions regarding the stock offering, please call the Stock Information Center at (\_\_\_\_\_) \_\_\_\_\_ - \_\_\_\_\_, from 10:00 a.m. to 4:00 p.m., Eastern time, Monday through Friday.

## RESTRICTIONS ON THE ACQUISITION OF FSB COMMUNITY BANKSHARES, INC. AND FAIRPORT SAVINGS BANK

### General

The principal federal regulatory restrictions that affect the ability of any person, firm or entity to acquire FSB Community Bankshares, Inc. or Fairport Savings Bank or their respective capital stock are described below. Also discussed are certain provisions in our charter and bylaws that may be deemed to affect the ability of a person, firm or entity to acquire us. Lastly, as a federally chartered mutual holding company, FSB Community Bankshares, MHC will always own a majority of our outstanding shares of common stock so long as we operate in the mutual holding company structure, and therefore will be able to control the outcome of any action requiring a vote of all of our shareholders.

### Federal Law

The Change in Bank Control Act provides that no person, acting directly or indirectly or through or in concert with one or more other persons, may acquire control of a savings institution unless the Office of Thrift Supervision has been given 60 days prior written notice. The Home Owners' Loan Act provides that no company may acquire "control" of a savings institution without the prior approval of the Office of Thrift Supervision. Any company that acquires such control becomes a savings and loan holding company subject to registration, examination and regulation by the Office of Thrift Supervision. Pursuant to federal regulations, control of a savings institution is conclusively deemed to have been acquired by, among other things, the acquisition of more than 25% of any class of voting stock of the institution or the ability to control the election of a majority of the directors of an institution. Moreover, control is presumed to have been acquired, subject to rebuttal, upon the acquisition of more than 10% of any class of voting stock, or of more than 25% of any class of stock of a savings institution, where certain enumerated "control factors" are also present in the acquisition.

The Office of Thrift Supervision may prohibit an acquisition of control if:

- it would result in a monopoly or substantially lessen competition;
- the financial condition of the acquiring person might jeopardize the financial stability of the institution; or
- the competence, experience or integrity of the acquiring person indicates that it would not be in the interests of the depositors or of the public to permit the acquisition of control by such person.

These restrictions do not apply to the acquisition of a savings institution's capital stock by one or more tax-qualified employee stock benefit plans, provided that the plans do not beneficially own of more than 25% of any class of equity security of the savings institution.

For a period of three years following completion of the stock issuance, Office of Thrift Supervision regulations generally prohibit any person from acquiring or making an offer to acquire beneficial ownership of more than 10% of the stock of FSB Community Bankshares, Inc. or Fairport Savings Bank without the prior approval of Office of Thrift Supervision.

### **Corporate Governance Provisions in the Charter and Bylaws of FSB Community Bankshares, Inc. and Fairport Savings Bank**

The following discussion is a summary of certain provisions of our charter and bylaws that relate to corporate governance. The description is necessarily general and qualified by reference to the charter and bylaws.

***Classified Board of Directors.*** Our board of directors is required by our bylaws to be divided into three staggered classes that are as equal in number as possible. Each year one class will be elected by our shareholders for a three-year term and until their successors are elected and qualified. A classified board promotes continuity and stability of our management, but makes it more difficult for shareholders to change a majority of the directors because it generally takes at least two annual elections of directors for this to occur.

***Authorized but Unissued Shares of Capital Stock.*** Following the stock offering, we will have authorized but unissued shares of preferred stock and common stock. See "Description of Capital Stock of FSB Community Bankshares, Inc." Although these shares could be used by our board of directors to make it more difficult or to discourage an attempt to obtain control of us through a merger, tender offer, proxy contest or otherwise, it is unlikely that we would use or need to use shares for these purposes since FSB Community Bankshares, MHC will own a majority of our shares of common stock for as long as we remain in the mutual holding company structure.

***How Shares are Voted.*** Our charter provides that there will not be cumulative voting by shareholders for the election of our directors. No cumulative voting rights means that FSB Community Bankshares, MHC, as the holder of a majority of the shares eligible to be voted at a meeting of shareholders, may elect all directors to be elected at our meetings of shareholders. This would enable FSB Community Bankshares, MHC to prevent minority shareholder representation on our board of directors.

***Procedures for Shareholder Nominations or Proposals for New Business.*** Our bylaws provide that any shareholder that desires to nominate a person for election as a director or propose new business at a meeting of shareholders must send written notice to our Secretary at least five days before the date of the annual meeting. The bylaws further provide that if a shareholder desires to nominate a director or propose new business and does not follow the prescribed procedures, the proposal will not be considered until an adjourned, special, or annual meeting of the shareholders taking place 30 days or more thereafter. Management believes that it is in the best interests of FSB Community Bankshares, Inc. and our shareholders to provide enough time for management to disclose to shareholders information about a dissident slate of nominations for directors. This advance notice requirement may also give management time to solicit its own proxies in an attempt to defeat any dissident slate of nominations if management thinks it is in the best interest of shareholders generally. Similarly, adequate advance notice of shareholder proposals will give management time to study such proposals and to determine whether to recommend to the shareholders that such proposals be adopted.

## Benefit Plans

In addition to the provisions of our charter and bylaws described above, certain benefit plans we have adopted in connection with the stock offering, or expect to adopt following completion of the stock offering, contain, or may contain, provisions that also may discourage hostile takeover attempts that our board of directors might conclude are not in the best interests of FSB Community Bankshares, Inc., Fairport Savings Bank or our shareholders.

## DESCRIPTION OF CAPITAL STOCK OF FSB COMMUNITY BANKSHARES, INC.

### General

We are authorized to issue 10,000,000 shares of common stock with a par value of \$0.10 per share, and 1,000,000 shares of serial preferred stock. Each share of our common stock will have the same relative rights as, and will be identical in all respects with, each other share of common stock. Upon payment of the purchase price for the shares of common stock in accordance with the stock issuance plan, all of the stock will be duly authorized, fully paid and nonassessable. Presented below is a description of our capital stock that is deemed material to an investment decision with respect to the stock offering. The shares of common stock will represent nonwithdrawable capital, will not be an account of an insurable type, and will not be insured by the Federal Deposit Insurance Corporation.

We currently expect that we will have a maximum of up to 2,777,250 shares of common stock outstanding after the stock offering, of which 1,305,308 shares will be held by persons other than FSB Community Bankshares, MHC. Our board of directors can, without shareholder approval, issue additional shares of common stock, although FSB Community Bankshares, MHC, so long as it is in existence, must own a majority of our outstanding shares of common stock. Our issuance of additional shares of common stock could dilute the voting strength of existing shareholders and may assist management in impeding an unfriendly takeover or attempted change in control. We have no present plans to issue additional shares of common stock other than pursuant to the stock benefit plans previously discussed.

### Common Stock

**Distributions.** We can pay dividends if, as and when declared by our board of directors, subject to compliance with limitations imposed by law. The holders of our shares of common stock will be entitled to receive and share equally in such dividends as may be declared by our board of directors out of funds legally available therefor. Dividends from FSB Community Bankshares, Inc. will depend, in large part, upon the net proceeds of the stock offering we retain, and to a lesser extent, on the receipt of future dividends from Fairport Savings Bank. Initially, we will have no additional sources of income to support dividends other than earnings from the investment of proceeds of the stock offering and interest payments received in connection with our loan to the employee stock ownership plan. A regulation of the Office of Thrift Supervision imposes limitations on “capital distributions” by savings institutions. See “Supervision and Regulation—Capital Distributions.” Pursuant to our charter, we are authorized to issue preferred stock. If we issue preferred stock, the holders thereof may have a priority over the holders of the common stock with respect to dividends.

**Voting Rights.** Upon the effective date of the stock offering, the holders of shares of common stock will possess exclusive voting rights in FSB Community Bankshares, Inc. Each holder of common stock will be entitled to one vote per share and will not have any right to cumulate votes for the election of directors. Under certain circumstances, shares in excess of 10% of the issued and outstanding shares of common stock may be considered “Excess Shares” and, accordingly, will not be entitled to vote. See “Restrictions on the Acquisition of FSB Community Bankshares, Inc. and Fairport Savings Bank.” If we issue preferred stock, holders of the preferred stock may also possess voting rights.

**Liquidation.** In the event of any liquidation, dissolution or winding up of Fairport Savings Bank, FSB Community Bankshares, Inc., as holder of Fairport Savings Bank’s capital stock, would be entitled to receive, after payment or provision for payment of all debts and liabilities of Fairport Savings Bank, including all deposit accounts and accrued interest thereon, all assets of Fairport Savings Bank available for distribution. In the event of our liquidation, dissolution or winding up, the holders of our shares of common stock would be entitled to receive, after payment or provision for payment of all its debts and liabilities, all of our assets available for distribution. If preferred stock is issued, the holders thereof may have a priority over the holders of the common stock in the event of liquidation or dissolution.

**Rights to Buy Additional Shares.** Holders of our shares of common stock will not be entitled to preemptive rights with respect to any shares which may be issued. Preemptive rights are the priority right to buy additional shares if we issue more shares in the future. The shares of common stock are not subject to redemption.

### **Preferred Stock**

None of our shares of authorized preferred stock will be issued in the stock issuance. Such stock may be issued with such preferences and designations as the board of directors may determine from time to time. Our board of directors can, without shareholder approval, issue preferred stock with voting, dividend, liquidation and conversion rights which could dilute the voting strength of the holders of the common stock and may assist management in impeding an unfriendly takeover or attempted change in control. We have no present plans to issue preferred stock.

### **TRANSFER AGENT AND REGISTRAR**

Registrar and Transfer Company, Cranford, New Jersey will act as the transfer agent and registrar for the common stock.

## LEGAL AND TAX MATTERS

The legality of the shares of common stock and the federal income tax consequences of the stock offering have been passed upon for Fairport Savings Bank and FSB Community Bankshares, Inc. by the firm of Luse Gorman Pomerenk & Schick, P.C., Washington, D.C. Luse Gorman Pomerenk & Schick, P.C. has consented to the references in this prospectus to its opinion. Certain legal matters regarding the stock offering will be passed upon for Sandler O'Neill & Partners, L.P. by Malizia Spidi & Fisch, PC, Washington, D.C.

## EXPERTS

The consolidated financial statements of FSB Community Bankshares, Inc. included in this prospectus have been audited by Beard Miller Company LLP, an independent registered public accounting firm, as stated in their report appearing herein, and is included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

In connection with our decision to conduct the stock offering, we decided to change our accounting firm from Mengel, Metzger, Barr & Co LLP ("MMB") to Beard Miller Company LLP ("BMC").

MMB's reports on our consolidated financial statements as of December 31, 2005 and 2004 and for the year ended December 31, 2005 and the eighteen month period ended December 31, 2004 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

In connection with MMB's audits of our consolidated financial statements for the year ended December 31, 2005 and the eighteen month period ended December 31, 2004, there were no disagreements with MMB on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which disagreements, if not resolved to the satisfaction of MMB, would have caused MMB to make reference to the subject matter of the disagreements in connection with its reports.

We have provided MMB with a copy of the disclosure contained in this prospectus, which was received by MMB on March 12, 2007. MMB has issued a letter stating that it agrees with our disclosure on this matter. This letter is included as an exhibit to our registration statement filed with the SEC.

We engaged BMC on January 29, 2007 to audit our consolidated financial statements as of and for the years ended December 31, 2006 and 2005. The engagement of BMC was approved by our audit committee. We had no relationship with BMC in any way during the years ended December 31, 2006 or 2005 or during any period subsequent to December 31, 2006 prior to engaging BMC.

RP Financial, LC has consented to the publication in this prospectus of the summary of its report to Fairport Savings Bank and FSB Community Bankshares, Inc. setting forth its opinion as to the estimated pro forma market value of the common stock upon the completion of the stock offering and its letter with respect to subscription rights.



### **WHERE YOU CAN FIND MORE INFORMATION**

We have filed a registration statement with the Securities and Exchange Commission under the Securities Act of 1933, with respect to the shares of common stock offered hereby. As permitted by the rules and regulations of the Securities and Exchange Commission, this prospectus does not contain all the information set forth in the registration statement. This information can be examined without charge at the public reference facilities of the Securities and Exchange Commission located at 100 F Street, NE, Washington, D.C. 20549, and copies of the material can be obtained from the Securities and Exchange Commission at prescribed rates. The registration statement also is available through the Securities and Exchange Commission's world wide web site on the internet at <http://www.sec.gov>. The statements contained in this prospectus as to the contents of any contract or other document filed as an exhibit to the registration statement are, of necessity, brief descriptions thereof and are not necessarily complete, but do contain all material information regarding the documents. Each statement is qualified by reference to the contract or document.

We have filed an Application MHC-2 with the Office of Thrift Supervision with respect to the stock offering. Pursuant to the rules and regulations of the Office of Thrift Supervision, this prospectus omits certain information contained in that Application. The Application may be examined at the principal offices of the Office of Thrift Supervision, 1700 G Street, N.W., Washington, D.C. 20552 and at the Northeast Regional Office of the Office of Thrift Supervision located at Harborside Financial Center Plaza Five, Suite 1600, Jersey City, New Jersey 07311.

We will provide, free of charge, a copy of our charter and bylaws.

### **REGISTRATION REQUIREMENTS**

In connection with the stock offering, we will register the common stock with the Securities and Exchange Commission under Section 12(g) of the Securities Exchange Act of 1934. Upon this registration, FSB Community Bankshares, Inc. and the holders of its shares of common stock will become subject to the proxy solicitation rules, reporting requirements and restrictions on stock purchases and sales by directors, officers and greater than 10% shareholders, the annual and periodic reporting and certain other requirements of the Securities Exchange Act of 1934. Under the stock issuance plan, we have undertaken that we will not terminate this registration for a period of at least three years following the stock offering.

***FSB COMMUNITY BANKSHARES, INC.***

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

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**SCHEDULES**

All schedules are omitted because the required information is not applicable or is included in the consolidated financial statements and related notes.

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LETTERHEAD OF BEARD MILLER COMPANY LLP

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors  
FSB Community Bankshares, Inc.  
Fairport, New York

We have audited the accompanying consolidated balance sheets of FSB Community Bankshares, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholder's equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FSB Community Bankshares, Inc. as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Beard Miller Company LLP

Beard Miller Company LLP  
Syracuse, New York  
March 13, 2007

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**FSB Community Bankshares, Inc.**  
**Consolidated Balance Sheets**  
**December 31, 2006 and 2005**

<b>Assets</b>	<b>2006</b>	<b>2005</b>
	<b>(Dollars In Thousands, except per share data)</b>	
Cash and due from banks	\$ 1,202	\$ 845
Interest-bearing demand deposits	980	3,824
Cash and Cash Equivalents	2,182	4,669
Securities available for sale	604	576
Securities held to maturity (fair value 2006 - \$23,873, 2005 - \$25,268)	24,191	25,651
Investment in FHLB stock	1,490	1,147
Loans, net of allowance for loan losses of \$322 and \$331, respectively	121,137	108,435
Accrued interest receivable	873	737
Premises and equipment, net	2,146	1,544
Foreclosed real estate	—	225
Other assets	200	129
<b>Total Assets</b>	<b>\$ 152,823</b>	<b>\$ 143,113</b>
<b>Liabilities and Stockholder's Equity</b>		
<b>Liabilities</b>		
Deposits:		
Non-interest bearing	\$ 3,336	\$ 4,380
Interest bearing	105,244	102,420
Total Deposits	108,580	106,800
Short term borrowings	4,200	—
Long term borrowings	23,824	20,658
Advances from borrowers for taxes and insurance	1,828	1,577
Other liabilities	521	460
<b>Total Liabilities</b>	<b>138,953</b>	<b>129,495</b>
<b>Commitments and Contingencies</b>	<b>—</b>	<b>—</b>
<b>Stockholder's Equity</b>		
Preferred Stock - No par - 1,000,000 shares authorized; no shares issued and outstanding	—	—
Common Stock - \$0.10 par - 10,000,000 shares authorized; 100 shares issued and outstanding	—	—
Additional paid in capital	10	10
Retained earnings	13,505	13,272
Accumulated other comprehensive income	355	336

Explanation of Responses:

<b>Total Stockholder's Equity</b>	13,870	13,618
<b>Total Liabilities and Stockholder's Equity</b>	\$ 152,823	\$ 143,113

See notes to consolidated financial statements.

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**FSB Community Bankshares, Inc.**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2006 and 2005**

	<b>2006</b>		<b>2005</b>
	<b>(In Thousands)</b>		
<b>Interest and Dividend Income</b>			
Loans	\$ 6,797	\$	5,762
Securities	963		672
Mortgage-backed securities	268		335
Other	65		47
<b>Total Interest and Dividend Income</b>	<b>8,093</b>		<b>6,816</b>
<b>Interest Expense</b>			
Deposits	3,409		2,528
Borrowings:			
Short term	51		10
Long term	961		440
<b>Total Interest Expense</b>	<b>4,421</b>		<b>2,978</b>
<b>Net Interest Income</b>	<b>3,672</b>		<b>3,838</b>
<b>Provision for Loan Losses</b>	<b>—</b>		<b>26</b>
<b>Net Interest Income After Provision for Loan Losses</b>	<b>3,672</b>		<b>3,812</b>
<b>Other Income</b>			
Service fees	75		66
Fee income	160		105
Realized gain on sale of securities	—		21
Other income	125		127
<b>Total Other Income</b>	<b>360</b>		<b>319</b>
<b>Other Expense</b>			
Salaries and employee benefits	2,098		1,934
Occupancy expense	272		282
Data processing costs	87		80
Advertising	185		156
Equipment expense	305		301
Electronic banking	88		72
Directors fees	93		104
Mortgage fees and taxes	173		126
Other expense	387		393
<b>Total Other Expense</b>	<b>3,688</b>		<b>3,448</b>
<b>Income Before Income Taxes</b>	<b>344</b>		<b>683</b>
<b>Provision for Income Taxes</b>	<b>111</b>		<b>226</b>
<b>Net Income</b>	<b>\$ 233</b>	<b>\$</b>	<b>457</b>

Explanation of Responses:

See notes to consolidated financial statements.

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**FSB Community Bankshares, Inc.**  
**Consolidated Statements of Stockholder's Equity**  
**Years Ended December 31, 2006 and 2005**

	Preferred Stock	Common Stock	Additional Paid In Capital	Retained earnings	Accumulated other comprehensive income	Total
			(In Thousands)			
<b>Balance - January 1, 2005</b>	\$ —	\$ —	10	\$ 12,815	\$ 374	\$ 13,199
Comprehensive income						
Net income				457	—	457
Change in net unrealized gain on securities available for sale, net of reclassification adjustment and taxes				—	(38)	(38)
<b>Total Comprehensive Income</b>						419
<b>Balance - December 31, 2005</b>			10	13,272	336	13,618
Comprehensive income						
Net income				233	—	233
Change in net unrealized gain on securities available for sale, net of reclassification adjustment and taxes				—	19	19
<b>Total Comprehensive Income</b>						252
<b>Balance - December 31, 2006</b>	\$ —	\$ —	10	\$ 13,505	\$ 355	\$ 13,870

See notes to consolidated financial statements.

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**FSB Community Bankshares, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years ended December 31, 2006 and 2005**

	<b>2006</b>		<b>2005</b>
	<b>(In Thousands)</b>		
<b>Cash Flows From Operating Activities</b>			
Net income	\$	233	\$ 457
Adjustments to reconcile net income to net cash provided from operating activities:			
Gain on sale of securities available for sale		—	(21)
Gain on sale of loans		(3)	—
Amortization of premium on investments		51	95
Accretion of discount on investments		(4)	(7)
Amortization of net deferred loan origination costs		8	56
Depreciation and amortization		216	241
Provision for loan losses		—	26
Deferred income tax (benefit) expense		6	(18)
Increase in accrued interest receivable		(136)	(186)
Increase in other assets		(65)	(25)
Increase (decrease) in other liabilities		46	(4)
<b>Net Cash Provided By Operating Activities</b>		<b>352</b>	<b>614</b>
<b>Cash Flows From Investing Activities</b>			
Proceeds from sale of securities available for sale		—	21
Purchase of securities held to maturity		(1,500)	(12,745)
Proceeds from maturities and calls of securities held to maturity		2,916	5,590
Net increase in loans		(13,898)	(9,924)
Proceeds from sales of loans		1,182	280
Purchase of Federal Home Loan Bank stock		(343)	(236)
Purchase of premises and equipment		(818)	(59)
Proceeds from sale of foreclosed real estate		225	—
<b>Net Cash Used By Investing Activities</b>		<b>(12,236)</b>	<b>(17,073)</b>
<b>Cash Flows From Financing Activities</b>			
Net increase in deposits		1,780	5,724
Net increase (decrease) in short-term borrowings		4,200	(1,000)
Proceeds from long-term borrowings		9,000	13,500
Repayments on long-term borrowings		(5,834)	(640)
Net increase in advances from borrowers for taxes and insurance		251	233
<b>Net Cash Provided By Financing Activities</b>		<b>9,397</b>	<b>17,817</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>		<b>(2,487)</b>	<b>1,358</b>
<b>Cash and Cash Equivalents - Beginning</b>		<b>4,669</b>	<b>3,311</b>
<b>Cash and Cash Equivalents - Ending</b>	\$	<b>2,182</b>	\$ <b>4,669</b>

Explanation of Responses:

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**FSB Community Bankshares, Inc.**  
**Consolidated Statements of Cash Flows, Cont'd**  
**Years ended December 31, 2006 and 2005**

	<b>2006</b>		<b>2005</b>
	<b>(In Thousands)</b>		
<b>Supplementary Cash Flows Information</b>			
Interest paid	\$ 4,400	\$	2,934
Income taxes paid	\$ 119	\$	202
<b>Non-Cash Operating, Investing And Financing Activities</b>			
Transfer of loans to foreclosed real estate	\$ —	\$	225

See notes to consolidated financial statements.

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**FSB Community Bankshares, Inc.**  
**Notes To Consolidated Financial Statements**  
**December 31, 2006 and 2005**

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

FSB Community Bankshares, Inc. the “Company” provides a variety of financial services to individuals and corporate customers through its wholly-owned subsidiary, Fairport Savings Bank (the “Bank”). The Bank’s operations are conducted in three branches located in Monroe County, New York. The Company and the Bank are subject to the regulations of certain regulatory authorities and undergo periodic examinations by those regulatory authorities.

The Bank also provides non-deposit investment services to its customers through its wholly-owned subsidiary Oakleaf Services Corporation (“Oakleaf”). The results of operations of Oakleaf are not material to the consolidated financial statements.

Reorganization

On December 17, 2003, the Bank’s depositors approved a Plan of Reorganization (the “Plan”) from a Federal Mutual Savings Bank to a Federal Mutual Holding Company. Under the Plan, effective January 14, 2005, FSB Community Bankshares, MHC (the “Mutual Company”) was incorporated under the laws of the United States as a mutual holding company. Also under the Plan, the Company was incorporated and became a wholly-owned subsidiary of the Mutual Company. In addition, effective January 14, 2005, the Bank completed its reorganization whereby the Bank converted to a stock savings bank and became a wholly-owned subsidiary of the Company.

Basis of consolidation

The Mutual Company, which engages in no significant business activity other than holding the stock of the Company, is not included in the accompanying consolidated financial statements. The consolidated financial statements include the accounts of the Company, the Bank and Oakleaf. All significant inter-company accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenue and expense during the reporting period. 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.

Cash and cash equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks, and interest-bearing demand deposits.

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located within Monroe, Livingston, Ontario, Orleans, and Wayne Counties, New York. Note 2 discusses the types of securities that the Bank invests in. The concentration of credit by type of loan is set forth in Note 3. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is primarily dependent upon the real estate and general economic conditions in those areas.

Securities

The Bank has classified as held to maturity, all debt securities which it has the positive intent and ability to hold until maturity. These securities are carried at amortized cost. All other debt and equity securities having readily determinable fair values are classified as available for sale and stated at fair value. Unrealized gains or losses related to securities available for sale are excluded from earnings and reported in other comprehensive income net of the related deferred income tax effect. The Bank has no securities classified as trading securities.

Amortization of premiums and accretion of discounts are calculated using the interest method and included in interest income.

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

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

Mortgage Loans Held for Sale

Mortgage loans held for sale in the secondary market are carried at the lower of cost or estimated market value. Realized gains and losses on sales are computed using the specific identification method. There were no loans held for sale at December 31, 2006 and 2005.

The Bank retains the servicing on loans sold and receives a fee based on the principal balance outstanding. Servicing rights were not material at December 31, 2006 and 2005.

Loans serviced for others totaled \$1,906,338 and \$742,844 at December 31, 2006 and 2005, respectively.

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NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and net deferred origination fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

Allowance for loan losses

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

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either 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.

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NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

Premises and equipment

Premises and equipment are stated at cost. Depreciation and amortization is computed on the straight-line basis over the shorter of the estimated useful lives or lease terms of the related assets. Estimated useful lives are generally 20 to 50 years for premises and 3 to 10 years for furniture and equipment.

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated selling costs at the date of foreclosure. Any write-downs based on the asset's fair value at date of acquisition are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new basis or fair value less any costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of the property to the lower of its cost or fair value less cost to sell.

Income Taxes

Income taxes are provided for the tax effects of certain transactions reported in the consolidated financial statements. Income taxes consist of taxes currently due plus deferred taxes related primarily to temporary differences between the financial reporting and income tax basis of the allowance for loan losses, premises and equipment, and deferred loan origination costs. The deferred tax assets and liabilities represent the future tax return consequences of the temporary differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. 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.

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## NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the consolidated balance sheets when they are funded.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Comprehensive Income

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

The components of other comprehensive income (loss) and related tax effects for the years ended December 31, 2006 and 2005 are as follows:

	<b>2006</b>		<b>2005</b>
	<b>(In Thousands)</b>		
Unrealized holding gain (loss) on available for sale securities	\$ 29	\$	(37)
Less reclassification adjustment for realized gains included in net income		—	(21)
Net unrealized gain (loss)	29		(58)
Tax effect	10		(20)
Net of tax amount	\$ 19	\$	(38)

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NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Recent Accounting Standards Issued

FAS 157

In September 2006, the FASB issued FASB Statement No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The company is currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 157 on our consolidated financial position, results of operations and cash flows.

SAB 108

On September 13, 2006, the Securities and Exchange Commission "SEC" issued Staff Accounting Bulletin No. 108 ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB 108, Companies might evaluate the materiality of financial-statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company's balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. The Company has analyzed SAB 108 and determined that upon adoption it will have no impact on the reported results of operations or financial condition.

FIN 48

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company is evaluating the impact of this new pronouncement on its consolidated financial statements.

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## NOTE 2: SECURITIES

The amortized cost and estimated fair value of securities with gross unrealized gains and losses at December 31, 2006 and 2005 are as follows:

	Amortized cost	Gross unrealized gains (In Thousands)	Gross unrealized losses	Estimated fair value
<u>2006:</u>				
<u>Securities available for sale</u>				
Equity securities	\$ 67	\$ 537	\$ —	\$ 604
<u>Securities held to maturity</u>				
U.S. Government obligations	\$ 18,200	\$ —	\$ (199)	\$ 18,001
State and municipal securities	50	—	—	50
Mortgage-backed securities	5,941	6	(125)	5,822
	\$ 24,191	\$ 6	\$ (324)	\$ 23,873
<u>2005:</u>				
<u>Securities available for sale</u>				
Equity securities	\$ 67	\$ 509	\$ —	\$ 576
<u>Securities held to maturity</u>				
U.S. Government obligations	\$ 17,716	\$ —	\$ (215)	\$ 17,501
State and municipal securities	110	2	—	112
Mortgage-backed securities	7,825	11	(181)	7,655
	\$ 25,651	\$ 13	\$ (396)	\$ 25,268

Mortgage-backed securities consist of securities issued by FNMA, FHLMC, and GNMA.

The amortized cost and estimated fair value by contractual maturity of debt securities at December 31, 2006 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	Amortized cost (In Thousands)	Estimated fair value
Due in one year or less	\$ 6,200	\$ 6,166
Due after one year through five years	2,000	1,986
Due after five years through ten years	5,550	5,472
Due after ten years	4,500	4,427
Mortgage-backed securities	5,941	5,822

Explanation of Responses:

\$ 24,191 \$ 23,873

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## NOTE 2: SECURITIES, Cont'd

Gross gains of \$-0- and \$21,000 were realized on sales of securities available for sale in 2006 and 2005, respectively. There were no realized losses in 2006 or 2005.

No securities were pledged to secure public deposits or for any other purpose required or permitted by law at December 31, 2006 and 2005.

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, at December 31, 2006 and 2005:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
2006:						
U.S. Government obligations	\$ 997	\$ 3	\$ 15,502	\$ 196	\$ 16,499	\$ 199
Mortgage-backed securities	131	1	4,976	124	5,107	125
Total	\$ 1,128	\$ 4	\$ 20,478	\$ 320	\$ 21,606	\$ 324
2005:						
U.S. Government obligations	\$ 13,554	\$ 162	\$ 2,947	\$ 53	\$ 16,501	\$ 215
Mortgage-backed securities	1,471	12	5,085	169	6,556	181
Total	\$ 15,025	\$ 174	\$ 8,032	\$ 222	\$ 23,057	\$ 396

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) 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.

At December 31, 2006, two debt securities have been in a continuous unrealized loss position for less than twelve months. Twenty-one securities have been in a continuous unrealized loss position for more than twelve months. As management has the intent and ability to hold debt securities until maturity, no declines are deemed to be other than temporary.

## NOTE 3: LOANS

Net loans at December 31, 2006 and 2005 consist of the following:

	<b>2006</b>		<b>2005</b>
	<b>(In Thousands)</b>		
Real estate loans:			
Secured by one to four family residences	\$ 109,786	\$	96,205
Secured by five or more family residences	1,040		1,110
Construction	380		209
Commercial	2,745		3,488
Home equity lines of credit	6,929		7,209
Other	241		380
Total loans	121,121		108,601
Net deferred loan origination costs	338		165
Allowance for loan losses	(322)		(331)
Net loans	\$ 121,137	\$	108,435

An analysis of activity in the allowance for loan losses for the years ended December 31, 2006 and 2005 is as follows:

	<b>2006</b>		<b>2005</b>
	<b>(In Thousands)</b>		
Balance at January 1,	\$ 331	\$	307
Provision for loan losses		—	26
Loans charged-off	(9)		(2)
Balance at December 31,	\$ 322	\$	331

At December 31, 2006 and 2005 there were no loans considered to be impaired as defined in Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan", as amended.

At December 31, 2006 and 2005, the Bank had nonaccrual loans of \$171,000 and \$70,000 respectively. There were no loans that were past due 90 days or more and still accruing interest at December 31, 2006 and 2005.

## NOTE 4: PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2006 and 2005 are summarized as follows:

	2006		2005
	(In Thousands)		
Premises	\$ 1,710	\$	1,687
Furniture, fixtures and equipment	1,357		1,314
Construction in progress	604		—
	3,671		3,001
Less accumulated depreciation	1,525		1,457
	\$ 2,146	\$	1,544

Construction in progress at December 31, 2006 represents costs incurred in connection with a new branch facility that opened in Irondequoit, New York in January 2007.

At December 31, 2006, the Company was obligated under noncancelable operating leases for an existing branch in Penfield, New York and the new branch in Irondequoit. Future minimum rental payments under these leases for the next five years are as follows:

	Penfield	Irondequoit	Total
	(In Thousands)		
2007	\$ 65	\$ 55	\$ 120
2008	72	55	127
2009	72	55	127
2010	72	55	127
2011	72	55	127
Total			\$ 628

Rent expense under the Penfield lease totaled \$70,000 and \$66,000 during 2006 and 2005, respectively.

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## NOTE 5: DEPOSITS

The components of deposits at December 31, 2006 and 2005 consist of the following:

	2006		2005
	(In Thousands)		
Non-interest bearing	\$ 3,336	\$	4,380
NOW accounts	5,040		3,643
Regular savings and demand clubs	11,889		12,405
Money market	10,271		10,354
Individual retirement accounts	15,115		15,011
Certificates of deposit	62,929		61,007
	\$ 108,580	\$	106,800

As of December 31, 2006, individual retirement accounts and certificates of deposit have scheduled maturities as follows (in thousands):

2007	\$ 43,744
2008	17,419
2009	8,228
2010	8,236
2011	417
	\$ 78,044

The aggregate amount of time deposits, each with a minimum denomination of \$100,000, was \$14,343,000 and \$12,115,320 at December 31, 2006 and 2005, respectively.

Interest expense on deposits for the years ended December 31, 2006 and 2005 is as follows:

	2006		2005
	(In Thousands)		
NOW accounts	\$ 20	\$	16
Regular savings and demand clubs	83		68
Money market	256		126
Individual retirement accounts	579		508
Certificates of deposit	2,471		1,810
	\$ 3,409	\$	2,528



## NOTE 6: SHORT TERM AND LONG TERM BORROWINGS

Short term and long term borrowings consist of advances from the Federal Home Loan Bank of New York (FHLB).

The Bank has an overnight line of credit and a one-month overnight repricing line of credit with the FHLB. Each line has a maximum borrowing limit of \$10,996,500 at December 31, 2006. At December 31, 2006, the overnight line bears interest at the federal funds rate plus 11 basis points and the one-month overnight repricing line bears interest at the federal funds rate plus 6 basis points. The lines expire on July 31, 2007 and are secured by one to four family residential mortgages. Short term borrowings on the overnight line totaled \$4,200,000 at December 31, 2006 with an interest rate of 5.33%. There were no borrowings on the lines at December 31, 2005.

Long term borrowings with the FHLB at December 31, 2006 and 2005 are as follows:

Advance Date	Maturity Date	Current Rate	2006	2005
(In Thousands)				
04/08/04	04/09/07	2.86%	\$ 500	\$ 500
04/08/04	04/08/08	3.34%	1,500	1,500
04/26/04	04/26/06	2.68%	—	350
08/24/04	08/24/06	2.99%	—	2,000
11/18/04	11/18/08	3.87%	1,000	1,000
11/29/04	12/01/08	4.10%	1,000	1,000
11/29/04	11/30/09	3.94%	624	815
03/22/05	03/23/09	4.60%	750	750
03/22/05	03/22/10	4.73%	750	750
05/13/05	05/14/07	4.14%	1,000	1,000
08/18/05	08/18/10	4.70%	1,000	1,000
09/06/05	09/06/11	4.53%	1,000	1,000
09/14/05	09/14/15	4.75%	945	993
10/20/05	01/20/06	4.28%	—	3,000
11/01/05	11/02/09	5.05%	1,000	1,000
11/01/05	11/01/10	4.95%	819	1,000
11/16/05	11/18/13	5.19%	1,000	1,000
11/16/05	11/16/12	5.18%	1,000	1,000
11/16/05	11/16/10	5.11%	1,000	1,000
06/05/06	06/06/16	5.63%	1,000	—
06/05/06	06/05/14	5.60%	1,000	—
08/17/06	08/19/13	5.45%	1,000	—
08/17/06	08/17/15	5.50%	1,000	—
08/24/06	08/24/11	5.39%	956	—
09/08/06	09/09/13	5.32%	980	—
11/28/06	11/28/11	5.00%	1,000	—
12/20/06	01/22/07	5.37%	2,000	—
			\$ 23,824	\$ 20,658

NOTE 6: SHORT TERM AND LONG TERM BORROWINGS, Cont'd

Long term borrowings are secured by residential mortgages and the Bank's investment in FHLB stock. As of December 31, 2006, \$76,296,000 was available for long term borrowings of which \$23,824,000 was outstanding.

The maturities of long term borrowings are as follows at December 31, 2006 (amounts in thousands):

2007	\$ 4,244
2008	4,281
2009	2,568
2010	3,383
2011	2,379
Thereafter	6,969
	\$ 23,824

NOTE 7: INCOME TAXES

The provision for income taxes for 2006 and 2005 consists of the following:

	2006	2005
	(In Thousands)	
Currently payable:		
State	\$ 1	\$ 2
Federal	104	242
Deferred (benefit) expense	6	(18)
	\$ 111	\$ 226

Items that give rise to differences between income tax expense included in the consolidated statements of income and statutory income tax at a rate of 34% were not material in 2006 or 2005.

## NOTE 7: INCOME TAXES, Cont'd

Deferred income tax assets and liabilities resulting from temporary differences are summarized as follows and are included in other liabilities in the accompanying consolidated balance sheets at December 31, 2006 and 2005:

	2006		2005
	(In Thousands)		
Deferred tax assets:			
Deferred loan origination fees	\$ 36	\$	47
Reserve for uncollectible interest	1		2
Pension expense	6		6
Allowance for loan losses	15		18
Accrued bonuses	9		8
Other	4		5
	71		86
Deferred tax liabilities:			
Depreciation	(32)		(41)
Unrealized gain on securities available for sale	(183)		(173)
	(215)		(214)
Net deferred tax liability	\$ (144)	\$	(128)

As a thrift institution, the Bank is subject to special provisions in the Federal and New York State income tax laws regarding its allowable income tax bad debt deductions and related tax basis bad debt reserves. These reserves consist of defined base-year amounts for Federal and New York State purposes. In accordance with SFAS 109 "Accounting for Income Taxes" (SFAS 109), deferred income taxes liabilities are to be recognized with respect to any base-year reserves which are to become taxable (or "recaptured") in the foreseeable future.

Under current income tax laws, the Federal base-year reserve would be subject to recapture if the Bank pays a cash dividend in excess of earnings and profits or liquidates. The New York State base-year reserves would be subject to recapture if the Bank failed to meet certain definitional tests, including maintaining a thrift charter. The Bank does not expect to take any actions in the foreseeable future that would require the recapture of any Federal or New York State reserves.

In accordance with SFAS 109, deferred tax liabilities have not been recognized with respect to the Federal base-year reserve of \$1,518,000 and the New York State base-year reserve of \$5,030,000 at December 31, 2006 since the Bank does not expect that these amounts will become taxable in the foreseeable future. The unrecognized deferred tax liability with respect to the Federal base-year reserve was \$516,000 at December 31, 2006. The unrecognized deferred tax liability with respect to the New York State base-year reserve, net of Federal income tax benefits, was \$249,000 at December 31, 2006.

## NOTE 8: RETIREMENT PLANS

The Bank has a 401(k) plan for all eligible employees. Employees are eligible for participation in the 401(k) Plan after six months of service and attaining age 21. The 401(k) Plan allows employees to contribute 1% to 25% of their annual salary subject to statutory limitations. Matching contributions made by the Bank are 100% of the first 3% of compensation that an employee contributes to the 401(k) Plan. In addition, the Bank may make a discretionary contribution of 10% of each eligible employees' annual base compensation. Matching contributions to the 401(k) Plan amounted to \$35,000 and \$30,000 for the years ended December 31, 2006 and 2005, respectively. Discretionary contributions to the 401(k) Plan were \$145,000 and \$135,000 for the years ended December 31, 2006 and 2005, respectively.

During 2006 the Bank implemented a supplemental executive retirement plan (SERP) for one of its executives. Expense under the SERP totaled \$19,000 during 2006.

## NOTE 9: RELATED PARTY TRANSACTIONS

Certain employees, executive officers and directors are engaged in transactions with the Bank in the ordinary course of business. It is the Bank's policy that all related party transactions are conducted at "arms length" and all loans and commitments included in such transactions are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers.

As of December 31, 2006 and 2005, loans outstanding with related parties were \$803,000 and \$770,000, respectively. During 2006, loan advances and repayments totaled \$110,000 and \$77,000, respectively.

## NOTE 10: COMMITMENTS

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and is represented by the contractual notional amount of those instruments summarized as follows at December 31, 2006 and 2005:

	2006	2005
	(In Thousands)	
Commitments to extend credit:		
Commitments to grant loans	\$ 1,064	\$ 3,757
Unfunded commitments under lines of credit	7,876	6,684
	\$ 8,940	\$ 10,441

NOTE 10: COMMITMENTS Cont'd

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Bank upon extension of credit, varies and is based on management's credit evaluation of the counterparty.

NOTE 11: REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the OTS. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I and tangible capital (as defined) to adjusted total assets (as defined). Management believes, as of December 31, 2006 and 2005, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2006 and 2005, notification from the OTS categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's status as well capitalized.

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## NOTE 11: REGULATORY MATTERS, Cont'd

The Bank's actual capital amounts (in thousands) and ratios are presented in the table below.

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006						
Total risk-based capital (to risk-weighted assets)	\$ 13,837	19.40%	\$ 5,708	8.0%	\$ 7,134	10.0%
Tier I capital (to risk-weighted assets)	13,515	18.94%	2,854	4.0%	4,280	6.0%
Tier I capital (leveraged) (to adjusted total assets)	13,515	8.88%	6,086	4.0%	7,607	5.0%
Tangible capital (to adjusted total assets)	13,515	8.88%	2,282	1.5%	N/A	N/A
As of December 31, 2005						
Total risk-based capital (to risk-weighted assets)	\$ 13,613	19.95%	\$ 5,458	8.0%	\$ 6,822	10.0%
Tier I capital (to risk-weighted assets)	13,282	19.46%	2,729	4.0%	4,093	6.0%
Tier I capital (leveraged) (to adjusted total assets)	13,282	9.32%	5,698	4.0%	7,122	5.0%
Tangible capital (to adjusted total assets)	13,282	9.32%	2,137	1.5%	N/A	N/A

## NOTE 12: FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash, Due from Banks, and Interest-Bearing Demand Deposits - The carrying amounts of these assets approximate their fair values.

Investment Securities - Fair values for investment securities are based primarily on quoted market prices.

Investment in FHLB Stock - The carrying value of FHLB stock approximates its fair value based on the redemption provisions of the FHLB.

Explanation of Responses:



## NOTE 12: FAIR VALUE OF FINANCIAL INSTRUMENTS, Cont'd

Loans - For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics.

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, fixed-term money market accounts and 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 interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Borrowings - The fair values of long-term borrowings are estimated using discounted cash flow analyses, based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements. The carrying amount of short-term borrowings approximate their fair value.

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

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2006 and 2005 are as follows:

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In Thousands)			
Financial assets:				
Cash and due from banks	\$ 1,202	\$ 1,202	\$ 845	\$ 845
Interest-bearing demand deposits	980	980	3,824	3,824
Securities available for sale	604	604	576	576
Securities held to maturity	24,191	23,873	25,651	25,268
FHLB stock	1,490	1,490	1,147	1,147
Loans, net	121,137	119,795	108,435	108,750
Accrued interest receivable	873	873	737	737
Financial liabilities:				
Deposits	108,580	108,555	106,800	106,724
Short term borrowings	4,200	4,200	—	—
Long term borrowings	23,824	25,043	20,658	22,826
Accrued interest payable	84	84	63	63

Off-balance sheet instruments:

Explanation of Responses:



Commitments to extend credit

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## NOTE 13: FSB COMMUNITY BANKSHARES, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION

Balance Sheets

	December 31,	
	2006	2005
	(In Thousands)	
Assets		
Investment in banking subsidiary	\$ 13,870	\$ 13,618
Stockholder's Equity	\$ 13,870	\$ 13,618

Statements of Income

	Years Ended December 31,	
	2006	2005
	(In Thousands)	
Equity in undistributed earnings of banking subsidiary	\$ 233	\$ 457
Net Income	\$ 233	\$ 457

Statements of Cash Flows

	Years Ended December 31,	
	2006	2005
	(In Thousands)	
Cash Flows From Operating Activities		
Net Income	\$ 233	\$ 457
Adjustments to reconcile net income to net cash provided from operating activities:		
Equity in undistributed earnings of banking subsidiary	(233)	(457)
Net cash provided by operating activities	—	—
Cash and cash equivalents - beginning	—	—
Cash and cash equivalents - ending	\$ —	\$ —

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NOTE 14: STOCK OFFERING

On January 24, 2007, the Board of Directors of the Company adopted a plan of stock issuance pursuant to which the Company will sell common stock representing a minority ownership of up to 47% of the estimated pro forma market value of the Company, which will be determined by an independent appraisal. The Company intends to sell common stock in a subscription offering to eligible customers of the Bank, tax-qualified employee benefit plans that the Company intends to form in connection with the stock offering and, if necessary, to the general public in a community offering and/or a syndicated community offering. The stock offering is subject to the approval of various regulatory agencies.

There were no costs incurred in connection with the stock offering during 2006. Costs associated with the stock offering will be recorded as a reduction of additional paid in capital received from the offering. If the stock offering is not completed, all costs incurred will be expensed.

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You should rely only on the information contained in this document or that to which we have referred you. We have not authorized anyone to provide you with information that is different. This document does not constitute an offer to sell, or the solicitation of an offer to buy, any of the securities offered hereby to any person in any jurisdiction in which such offer or solicitation would be unlawful. The affairs of Fairport Savings Bank or FSB Community Bankshares, Inc. may change after the date of this prospectus. Delivery of this document and the sales of shares made hereunder does not mean otherwise.

FSB Community Bankshares, Inc.  
Holding Company for Fairport Savings Bank

1,135,050 Shares of Common Stock  
(Subject to Increase to up to 1,305,308 Shares)

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**PROSPECTUS**

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Sandler O'Neill + Partners, L.P.

\_\_\_\_\_, 2007

**Until the later of [offering date] or 90 days after the commencement of the offering, all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.**

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**PART II: INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 24. Indemnification of Directors and Officers**

Section 545.121 of the Office of Thrift Supervision (“OTS”) regulations provides indemnification for directors and officers of Fairport Savings Bank. Each of the directors and officers of the Registrant hold the same position with Fairport Savings Bank and have indemnification under OTS Regulations as described below.

Generally, federal regulations define areas for indemnity coverage for federal savings associations as follows:

(a) Any person against whom any action is brought or threatened because that person is or was a director or officer of the savings association shall be indemnified by the savings association for:

(i) Any amount for which that person becomes liable under a judgment in such action; and

(ii) Reasonable costs and expenses, including reasonable attorneys’ fees, actually paid or incurred by that person in defending or settling such action, or in enforcing his or her rights under this section if he or she attains a favorable judgment in such enforcement action.

(b) Indemnification shall be made to such person under paragraph (b) of this Section only if:

(i) Final judgment on the merits is in his or her favor; or

(ii) In case of:

a. Settlement,

b. Final judgment against him or her, or

c. Final judgment in his or her favor, other than on the merits, if a majority of the disinterested directors of the savings association determine that he or she was acting in good faith within the scope of his or her employment or authority as he or she could reasonably have perceived it under the circumstances and for a purpose he or she could reasonably have believed under the circumstances was in the best interest of the savings association or its members. However, no indemnification shall be made unless the association gives the Office at least 60 days notice of its intention to make such indemnification. Such notice shall state the facts on which the action arose, the terms of any settlement, and any disposition of the action by a court. Such notice, a copy thereof, and a certified copy of the resolution containing the required determination by the board of directors shall be sent to the Regional Director, who shall promptly acknowledge receipt thereof. The notice period shall run from the date of such receipt. No such indemnification shall be made if the OTS advises the association in writing, within such notice period, of its objection thereto.

(c) As used in this paragraph:

(i) “Action” means any judicial or administrative proceeding, or threatened proceeding, whether civil, criminal, or otherwise, including any appeal or other proceeding for review;

(ii) “Court” includes, without limitation, any court to which or in which any appeal or any proceeding for review is brought;

(iii) “Final Judgment” means a judgment, decree, or order which is not appealable or as to which the period for appeal has expired with no appeal taken;

(iv) "Settlement" includes the entry of a judgment by consent or confession or a plea of guilty or of *nolo contendere*.

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**Item 25. Other Expenses of Issuance and Distribution**

	Amount
Legal Fees and Expenses*, (1)	\$ 310,000
Accounting Fees and Expenses*	100,000
Marketing Agent Fees and Expenses	210,000
Appraisal Fees and Expenses	30,000
Business Plan Fees and Expenses	20,000
Conversion Agent Fees and Expenses	15,000
Printing, Postage, Mailing and EDGAR*	110,000
Filing Fees (OTS, NASD and SEC)	9,603
State Filing Fees*	15,000
Other	34,997
Total	\$ 854,600

\* Estimated  
 (1) Includes fees for filings with state securities commissions.

**Item 26. Recent Sales of Unregistered Securities**

On January 14, 2005, the Registrant issued 100 shares of its Common Stock to FSB Community Bankshares, MHC in an offering that was exempt under Section 4(2) of the Securities Act as part of its initial organization.

**Item 27. Exhibits and Financial Statement Schedules:**

The exhibits filed as part of this registration statement are as follows:

(a)	<b>List of Exhibits</b>
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- 1.1 Engagement Letter between FSB Community Bankshares, Inc. and Sandler O'Neill & Partners, L.P.
- 1.2 Form of Agency Agreement between FSB Community Bankshares, Inc. and Sandler O'Neill & Partners, L.P. \*
- 2 Plan of Stock Issuance
- 3.1 Charter of FSB Community Bankshares, Inc.
- 3.2 Bylaws of FSB Community Bankshares, Inc.
- 4 Form of Common Stock Certificate of FSB Community Bankshares, Inc.
- 5 Opinion of Luse Gorman Pomerenk & Schick regarding legality of securities being registered
- 8 Federal Tax Opinion of Luse Gorman Pomerenk & Schick
- 10.1 Employment Agreement of Dana C. Gavenda
- 10.2 Supplemental Executive Retirement Plan
- 10.3 Form of Employee Stock Ownership Plan
- 16 Letter of Mengel, Metzger, Barr & Co LLP regarding change in accountants
- 21 Subsidiaries of Registrant
- 23.1 Consent of Luse Gorman Pomerenk & Schick (contained in Opinions included as Exhibits 5 and 8)
- 23.2 Consent of Beard Miller Company, LLP
- 23.3 Consent of RP Financial, LC.
- 24 Power of Attorney (set forth on signature page)
- 99.1 Prospectus Supplement
- 99.2 Appraisal Agreement between FSB Community Bankshares, Inc. and RP Financial, LC.

Explanation of Responses:

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- 99.3 Business Plan Agreement between FSB Community Bankshares, Inc. and Keller & Company
- 99.4 Appraisal Report of RP Financial, LC. \*\*
- 99.5 Letter of RP Financial, LC. with respect to Subscription Rights
- 99.6 Marketing Materials\*
- 99.7 Order and Acknowledgment Form\*

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\* To be filed supplementally or by amendment.

\*\* Supporting financial schedules filed in paper format only pursuant to Rule 202 of Regulation S-T. Available for inspection during business hours at the principal offices of the SEC in Washington, D.C.

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**Item 28. Undertakings**

The small business issuer will:

(1) File, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) Include any additional or changed material information as the plan of distribution.

(2) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement as the securities offered, and the offering of the securities at that time to be the initial bona fide offering thereof.

(3) File a post-effective amendment to remove from registration any of the securities being registered that remain unsold at the termination of the offering.

(4) For determining liability of the undersigned small business issuer under the Securities Act to any purchaser in the initial distribution of the securities, the undersigned small business issuer undertakes that in a primary offering of securities of the undersigned small business issuer pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned small business issuer will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned small business issuer relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned small business issuer or used or referred to by the undersigned small business issuer;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned small business issuer or its securities provided by or on behalf of the undersigned small business issuer; and

(iv) Any other communication that is an offer in the offering made by the undersigned small business issuer to the purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act, and is, therefore, unenforceable. In the event that

a claim for indemnification against such liabilities (other than the payment by the small business issuer of expenses incurred or paid by a director, officer or controlling person of the small business issuer in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the small business issuer will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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The small business issuer hereby undertakes that:

(1) For determining any liability under the Securities Act, treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430(A) and contained in a form of prospectus filed by the small business issuer pursuant to Rule 424(b)(1), or (4) or 497(h) under the Securities Act as part of this registration statement as of the time the Commission declared it effective.

(2) For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

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**SIGNATURES**

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned, in the City of Fairport, State of New York on March 16, 2007.

**FSB COMMUNITY BANKSHARES, INC.**

By: /s/ Dana C. Gavenda

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Dana C. Gavenda  
 President, Chief Executive Officer and Director  
 (Duly Authorized Representative)

**POWER OF ATTORNEY**

We, the undersigned directors and officers of FSB Community Bankshares, Inc. (the "Company") hereby severally constitute and appoint Dana C. Gavenda as our true and lawful attorney and agent, to do any and all things in our names in the capacities indicated below which said Dana C. Gavenda may deem necessary or advisable to enable the Company to comply with the Securities Act of 1933, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with the registration statement on Form SB-2 relating to the offering of the Company's common stock, including specifically, but not limited to, power and authority to sign for us in our names in the capacities indicated below the registration statement and any and all amendments (including post-effective amendments) thereto; and we hereby approve, ratify and confirm all that said Dana C. Gavenda shall do or cause to be done by virtue thereof.

In accordance with the requirements of the Securities Act of 1933, this registration statement was signed by the following persons in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Dana C. Gavenda Dana C. Gavenda	President, Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2007
/s/ Kevin Maroney Kevin Maroney	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 2007
/s/ Thomas J. Hanss Thomas J. Hanss	Chairman of the Board	March 16, 2007
/s/ Terence O'Neil Terence O'Neil	Vice Chairman of the Board	March 16, 2007
/s/ D. Lawrence Keef D. Lawrence Keef	Director	March 16, 2007
/s/ James E. Smith James E. Smith	Director	March 16, 2007

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/s/ Lowell T. Twitchell Lowell T. Twitchell	Director	March 16, 2007
/s/ Robert W. Sturn Robert W. Sturn	Director	March 16, 2007
/s/ Charis W. Warshof Charis W. Warshof	Director	March 16, 2007
/s/ Gary Lindsay Gary Lindsay	Director	March 16, 2007

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As filed with the Securities and Exchange Commission on March 16, 2007

Registration No. 333-\_\_\_\_\_

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**EXHIBITS  
TO  
REGISTRATION STATEMENT  
ON  
FORM SB-2**

**FSB Community Bankshares, Inc.**  
**Fairport, New York**

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