

LAKE SHORE BANCORP, INC.
Form 10-Q
May 12, 2015

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No.: 000-51821

LAKE SHORE BANCORP, INC.
(Exact name of registrant as specified in its charter)

United States
(State or other jurisdiction of incorporation or organization)

20-4729288
(I.R.S. Employer Identification Number)

31 East Fourth Street, Dunkirk, New York
(Address of principal executive offices)

14048
(Zip code)

(716)
366-4070

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

| | |
|---|---------------------------|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer (Do not check if a smaller reporting company) | Smaller reporting company |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practical date:

There were 5,992,439 shares of the registrant’s common stock, \$0.01 par value per share, outstanding at May 1, 2015.

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PART I

Item 1. Financial Statements

Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Financial Condition

| | March 31, 2015 (Unaudited) | December 31, 2014 (Unaudited) |
|--|--|--|
| | (Dollars in thousands, except share data) | |
| Assets | | |
| Cash and due from banks | \$ 7,842 | \$ 7,460 |
| Interest earning deposits | 15,196 | 19,575 |
| Federal funds sold | 9,904 | 8,776 |
| Cash and Cash Equivalents | 32,942 | 35,811 |
| Securities available for sale | 134,965 | 138,202 |
| Federal Home Loan Bank stock, at cost | 1,375 | 1,375 |
| Loans receivable, net of allowance for loan losses 2015 \$1,940; 2014 \$1,921 | 286,624 | 284,853 |
| Premises and equipment, net | 9,380 | 9,519 |
| Accrued interest receivable | 1,918 | 1,716 |
| Bank owned life insurance | 14,733 | 14,666 |
| Other assets | 1,010 | 1,329 |
| Total Assets | \$ 482,947 | \$ 487,471 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Deposits: | | |
| Interest bearing | \$ 344,268 | \$ 349,777 |
| Non-interest bearing | 38,392 | 37,162 |
| Total Deposits | 382,660 | 386,939 |
| Long-term debt | 18,950 | 18,950 |
| Advances from borrowers for taxes and insurance | 2,422 | 3,415 |
| Other liabilities | 6,390 | 6,537 |
| Total Liabilities | \$ 410,422 | \$ 415,841 |
| Commitments and Contingencies | - | - |
| Stockholders' Equity | | |
| Common stock, \$0.01 par value per share, 25,000,000 shares authorized; 6,684,282 shares issued and 5,995,439 shares outstanding at March 31, 2015 and 6,673,940 shares issued and | \$ 67 | \$ 67 |

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| | | |
|--|------------|------------|
| 5,990,042 shares outstanding at December 31, 2014 | | |
| Additional paid-in capital | 28,817 | 28,684 |
| Treasury stock, at cost (688,343 shares at March 31, 2015 and 683,898 shares at December 31, 2014) | (6,550) | (6,420) |
| Unearned shares held by ESOP | (1,769) | (1,791) |
| Unearned shares held by compensation plans | (719) | (622) |
| Retained earnings | 48,607 | 48,192 |
| Accumulated other comprehensive income | 4,072 | 3,520 |
| Total Stockholders' Equity | 72,525 | 71,630 |
| Total Liabilities and Stockholders' Equity | \$ 482,947 | \$ 487,471 |

See notes to consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Income

| | Three Months Ended | |
|---|---|----------|
| | March 31, | |
| | 2015 | 2014 |
| | (Unaudited) | |
| | (Dollars in thousands, except per share data) | |
| Interest Income | | |
| Loans, including fees | \$ 3,370 | \$ 3,305 |
| Investment securities, taxable | 493 | 702 |
| Investment securities, tax-exempt | 530 | 530 |
| Other | 6 | 1 |
| Total Interest Income | 4,399 | 4,538 |
| Interest Expense | | |
| Deposits | 663 | 757 |
| Short-term borrowings | - | 12 |
| Long-term debt | 99 | 32 |
| Other | 24 | 25 |
| Total Interest Expense | 786 | 826 |
| Net Interest Income | 3,613 | 3,712 |
| Provision for Loan Losses | 25 | - |
| Net Interest Income after Provision for Loan Losses | 3,588 | 3,712 |
| Non-Interest Income | | |
| Service charges and fees | 379 | 396 |
| Earnings on bank owned life insurance | 67 | 61 |
| Recovery on previously impaired investment securities | 32 | 83 |
| Loss on sale of security available for sale | - | (98) |
| Gain on sale of loans | 24 | - |
| Other | 32 | 38 |
| Total Non-Interest Income | 534 | 480 |
| Non-Interest Expenses | | |
| Salaries and employee benefits | 1,803 | 1,663 |
| Occupancy and equipment | 571 | 559 |
| Data processing | 250 | 183 |
| Professional services | 245 | 315 |
| Advertising | 106 | 99 |
| FDIC Insurance | 71 | 71 |
| Postage and supplies | 59 | 67 |
| Other | 202 | 281 |
| Total Non-Interest Expenses | 3,307 | 3,238 |
| Income before Income Taxes | 815 | 954 |
| Income Tax Expense | 246 | 179 |
| Net Income | \$ 569 | \$ 775 |
| Basic and diluted earnings per common share | \$ 0.10 | \$ 0.14 |
| Dividends declared per share | \$ 0.07 | \$ 0.07 |

See notes to consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

| | Three Months Ended March 31, 2015 2014 (Unaudited) (Dollars in thousands) | |
|--|--|----------|
| Net Income | \$ 569 | \$ 775 |
| Other Comprehensive Income, net of tax expense | | |
| Unrealized holding gains on securities available for sale, net of tax expense | 573 | 1,526 |
| Reclassification adjustments related to: | | |
| Recovery on previously impaired investment securities included in net income, net of tax expense | (21) | (51) |
| Loss on sale of security included in net income, net of tax benefit | - | 60 |
| Total Other Comprehensive Income | 552 | 1,535 |
| Total Comprehensive Income | \$ 1,121 | \$ 2,310 |

See notes to consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Stockholders' Equity

Three Months Ended March 31, 2015 and 2014 (Unaudited)

| | Common Stock | Additional Paid-In Capital | Treasury Stock | Unearned Shares Held by ESOP | Unearned Shares Held by Compensation Plans | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---|-----------------|----------------------------------|-------------------|---------------------------------------|--|----------------------|---|-----------|
| (In thousands, except share and per share data) | | | | | | | | |
| Balance - January 1, 2014 | \$ 66 | \$ 28,039 | \$ (6,588) | \$ (1,876) | \$ (499) | \$ 45,624 | \$ 505 | \$ 65,271 |
| Net income | - | - | - | - | - | 775 | - | 775 |
| Other comprehensive income, net of tax expense of \$969 | - | - | - | - | - | - | 1,535 | 1,535 |
| ESOP shares earned (1,984 shares) | - | 3 | - | 21 | - | - | - | 24 |
| Stock based compensation | - | 1 | - | - | - | - | - | 1 |
| Compensation plan shares earned (658 shares) | - | 4 | - | - | 9 | - | - | 13 |
| Purchase of treasury stock, at cost (5,000 shares) | - | - | (62) | - | - | - | - | (62) |
| Cash dividends declared (\$0.07 per share) | - | - | - | - | - | (147) | - | (147) |
| Balance - March 31, 2014 | \$ 66 | \$ 28,047 | \$ (6,650) | \$ (1,855) | \$ (490) | \$ 46,252 | \$ 2,040 | \$ 67,410 |
| Balance - January 1, 2015 | \$ 67 | \$ 28,684 | \$ (6,420) | \$ (1,791) | \$ (622) | \$ 48,192 | \$ 3,520 | \$ 71,630 |
| Net income | - | - | - | - | - | 569 | - | 569 |
| Other comprehensive income, net of tax benefit of \$123 | - | - | - | - | - | - | 552 | 552 |
| Stock options exercised (10,342 shares) | - | 119 | - | - | - | - | - | 119 |
| ESOP shares earned (1,984 shares) | - | 5 | - | 22 | - | - | - | 27 |
| Stock based compensation | - | 1 | - | - | - | - | - | 1 |
| | - | - | 140 | - | (140) | - | - | - |

| | | | | | | | | |
|---|-------|-----------|------------|------------|----------|-----------|----------|-----------|
| Compensation plan shares granted (14,955 shares) | | | | | | | | |
| Compensation plan shares earned (4,013 shares) | - | 8 | - | - | 43 | - | - | 51 |
| Purchase of treasury stock, at cost (19,900 shares) | - | - | (270) | - | - | - | - | (270) |
| Cash dividends declared (\$0.07 per share) | - | - | - | - | - | (154) | - | (154) |
| Balance - March 31, 2015 | \$ 67 | \$ 28,817 | \$ (6,550) | \$ (1,769) | \$ (719) | \$ 48,607 | \$ 4,072 | \$ 72,525 |

See notes to consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows

| | Three Months Ended March 31, | |
|---|---------------------------------|--------|
| | 2015 | 2014 |
| | (Unaudited) | |
| | (Dollars in thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 569 | \$ 775 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net amortization of investment securities | 78 | 73 |
| Amortization of deferred loan costs | 102 | 116 |
| Provision for loan losses | 25 | - |
| Recovery on previously impaired investment securities | (32) | (83) |
| Loss on sale of investment security | - | 98 |
| Originations of loans held for sale | (1,344) | (112) |
| Proceeds from sales of loans held for sale | 1,368 | 112 |
| Gain on sale of loans | (24) | - |
| Depreciation and amortization | 205 | 181 |
| Increase in bank owned life insurance, net | (67) | (61) |
| ESOP shares committed to be released | 27 | 24 |
| Stock based compensation expense | 52 | 14 |
| Increase in accrued interest receivable | (202) | (165) |
| Decrease (increase) in other assets | 329 | (122) |
| (Decrease) increase in other liabilities | (24) | 59 |
| Net Cash Provided by Operating Activities | 1,062 | 909 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Activity in available for sale securities: | | |
| Sales | - | 1,544 |
| Maturities, prepayments and calls | 3,620 | 3,519 |
| Purchases of Federal Home Loan Bank Stock | (29) | - |
| Redemptions of Federal Home Loan Bank Stock | 29 | 25 |
| Loan origination and principal collections, net | (1,908) | 1,674 |
| Additions to premises and equipment | (66) | (129) |
| Net Cash Provided by Investing Activities | 1,646 | 6,633 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net (decrease) increase in deposits | (4,279) | 5,102 |
| Net decrease in advances from borrowers for taxes and insurance | (993) | (981) |
| Net increase in short term borrowings | - | 250 |
| Proceeds from issuance of long-term debt | 3,250 | 1,900 |