

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)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
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
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
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
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
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
Repayment of long-term debt	(3,250)	(2,700)
Proceeds from stock options exercised	119	-
Purchase of treasury stock	(270)	(62)
Cash dividends paid	(154)	(147)
Net Cash (Used in) Provided by Financing Activities	(5,577)	3,362
Net (Decrease) Increase in Cash and Cash Equivalents	(2,869)	10,904
CASH AND CASH EQUIVALENTS - BEGINNING	35,811	17,202
CASH AND CASH EQUIVALENTS - ENDING	\$ 32,942	\$ 28,106

SUPPLEMENTARY CASH FLOWS INFORMATION

Interest paid	\$ 788	\$ 840
Income taxes paid	\$ 15	\$ 85

SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Foreclosed real estate acquired in settlement of loans	\$ 20	\$ 79
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See notes to consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Unaudited)

Note 1 – Nature of Operations and Basis of Presentation

Lake Shore Bancorp, Inc. (the “Company,” “us,” “our,” or “we”) was formed on April 3, 2006 to serve as the stock holding company for Lake Shore Savings Bank (“the Bank”) as part of the Bank’s conversion and reorganization from a New York-chartered mutual savings and loan association to the federal mutual holding company form of organization.

The interim consolidated financial statements include the accounts of the Company and the Bank, its wholly owned subsidiary. All intercompany accounts and transactions of the consolidated subsidiary have been eliminated in consolidation.

The interim financial statements included herein as of March 31, 2015 and for the three months ended March 31, 2015 and 2014 have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and therefore, do not include all information or footnotes necessary for a complete presentation of the consolidated statements of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The consolidated statement of financial condition at December 31, 2014 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete consolidated financial statements. The consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of such information and to make the financial statements not misleading. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The consolidated results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results for any subsequent period or the entire year ending December 31, 2015.

To prepare these consolidated financial statements in conformity with GAAP, management of the Company made a number of estimates and assumptions relating to the reporting of assets and liabilities and the reporting of revenue and expenses. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, securities valuation estimates, evaluation of impairment of securities and income taxes.

The Company has evaluated events and transactions occurring subsequent to the statement of financial condition as of March 31, 2015 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

Note 2 – New Accounting Standards

The Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2014-04, “Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure” (“ASU 2014-04”). ASU 2014-04 clarifies that an in substance repossession or foreclosure occurs, when either (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Upon completion of either of these two events the credit is considered to have received physical possession of residential real estate property and therefore should derecognize the loan receivable and recognize real estate owned. Additionally, ASU 2014-04 requires interim and annual disclosure of both (a) the amount of foreclosed residential real estate property held by the creditor and (b) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The adoption of ASU 2014-04 is not expected to have a material impact on the Company’s consolidated financial statements or results of operations.

The Company adopted FASB ASU 2014-11, “Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures” (“ASU 2014-11”), which changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. The new guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions will all be accounted for as secured borrowings. It also requires additional disclosures about repurchase agreements and other similar transactions. The adoption of ASU 2014-11 is not expected to have a material impact on the Company’s consolidated financial statements or results of operations.

The Company adopted FASB ASU 2014-14, “Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure” (“ASU 2014-14”). ASU 2014-14 applies to all creditors that hold government-guaranteed mortgage loans. The update requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if three conditions are met. The first condition would be that the loan has a government guarantee that is not separable from the loan before foreclosure. The second condition is that at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim. The third and final condition is that at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. Management does not expect the adoption of this update to have a material impact on the Company’s consolidated financial statements or results of operations.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). ASU 2014-09 is intended to clarify and simplify revenue recognition principles, develop a common revenue standard across industries and accounting frameworks, and improve the usefulness and consistency of revenue reporting. ASU 2014-09 is effective for annual reporting periods, including interim reporting periods within those periods, beginning after December 15, 2016. Early application is not permitted. The Company has not yet determined the impact the adoption of ASU 2014-09 will have on its financial condition and results of operations.

In June 2014, the FASB issued ASU 2014-12, “Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period” (“ASU 2014-12”). ASU 2014-12 applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. The update requires that a performance target be treated as a performance condition. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. ASU 2014-12 is effective for the reporting periods beginning after December 15, 2015. Management does not expect the adoption of this update to have a



material impact on the Company's consolidated financial statements or results of operations.

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## Note 3 – Investment Securities

The amortized cost and fair value of securities are as follows:

	March 31, 2015			
	Amortized	Gross Unrealized	Gross Unrealized	Fair
	Cost	Gains	Losses	Value
	(Dollars in thousands)			
<b>SECURITIES AVAILABLE FOR SALE:</b>				
U.S. Treasury bonds	\$ 12,807	\$ 1,749	\$ -	\$ 14,556
Municipal bonds	57,149	3,478	(12)	60,615
Mortgage-backed securities:				
Collateralized mortgage obligations-private label	60	-	-	60
Collateralized mortgage obligations-government sponsored entities	47,379	273	(367)	47,285
Government National Mortgage Association	500	46	-	546
Federal National Mortgage Association	6,780	369	-	7,149
Federal Home Loan Mortgage Corporation	2,547	127	-	2,674
Asset-backed securities-private label	1,445	558	(91)	1,912
Asset-backed securities-government sponsored entities	106	11	-	117
Equity securities	22	29		