

LAKE SHORE BANCORP, INC.
Form 10-Q
August 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 June 30, 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 5,977,372 shares of the registrant’s common stock, \$0.01 par value per share, outstanding at August 1, 2015.

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PART I

Item 1. Financial Statements

Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Financial Condition

	June 30, 2015 (Unaudited)	December 31, 2014
	(Dollars in thousands, except share data)	
Assets		
Cash and due from banks	\$ 8,015	\$ 7,460
Interest earning deposits	7,521	19,575
Federal funds sold	12,310	8,776
Cash and Cash Equivalents	27,846	35,811
Securities available for sale	129,194	138,202
Federal Home Loan Bank stock, at cost	1,355	1,375
Loans receivable, net of allowance for loan losses 2015 \$2,125; 2014 \$1,921	296,557	284,853
Premises and equipment, net	9,251	9,519
Accrued interest receivable	1,701	1,716
Bank owned life insurance	14,802	14,666
Other assets	886	1,329
Total Assets	\$ 481,592	\$ 487,471
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Interest bearing	\$ 337,379	\$ 349,777
Non-interest bearing	44,466	37,162
Total Deposits	381,845	386,939
Long-term debt	18,950	18,950
Advances from borrowers for taxes and insurance	3,284	3,415
Other liabilities	5,667	6,537
Total Liabilities	\$ 409,746	\$ 415,841
Commitments and Contingencies	-	-
Stockholders' Equity		
Common stock, \$0.01 par value per share, 25,000,000 shares authorized; 6,685,715 shares issued and 5,977,372 shares outstanding at June 30, 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	28,848	28,684
Treasury stock, at cost (708,343 shares at June 30, 2015 and 683,898 shares at December 31, 2014)	(6,816)	(6,420)
Unearned shares held by ESOP	(1,748)	(1,791)
Unearned shares held by compensation plans	(676)	(622)
Retained earnings	49,153	48,192
Accumulated other comprehensive income	3,018	3,520
Total Stockholders' Equity	71,846	71,630
Total Liabilities and Stockholders' Equity	\$ 481,592	\$ 487,471

See notes to consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Income

	Three Months		Six Months Ended	
	Ended		June 30,	
	June 30,	2014	2015	2014
	2015		2015	2014
	(Unaudited)			
	(Dollars in thousands, except per share data)			
Interest Income				
Loans, including fees	\$ 3,424	\$ 3,365	\$ 6,794	\$ 6,670
Investment securities, taxable	449	630	942	1,332
Investment securities, tax-exempt	530	529	1,060	1,059
Other	5	3	11	4
Total Interest Income	4,408	4,527	8,807	9,065
Interest Expense				
Deposits	593	748	1,256	1,505
Short-term borrowings	-	8	-	20
Long-term debt	98	48	197	80
Other	25	26	49	51
Total Interest Expense	716	830	1,502	1,656
Net Interest Income	3,692	3,697	7,305	7,409
Provision for Loan Losses	185	-	210	-
Net Interest Income after Provision for Loan Losses	3,507	3,697	7,095	7,409
Non-Interest Income				
Service charges and fees	399	410	778	806
Earnings on bank owned life insurance	69	64	136	125
Recovery on previously impaired investment securities	43	18	75	101
Net gain on sale of securities available for sale	-	157	-	59
Net gain on sale of loans	21	-	45	-
Other	15	21	47	59
Total Non-Interest Income	547	670	1,081	1,150
Non-Interest Expenses				
Salaries and employee benefits	1,684	1,591	3,487	3,254
Occupancy and equipment	565	558	1,136	1,117
Data processing	252	194	502	377
Professional services	258	343	503	658
Advertising	103	169	209	268
FDIC Insurance	73	70	144	141
Postage and supplies	68	66	127	133
Other	259	278	461	559
Total Non-Interest Expenses	3,262	3,269	6,569	6,507
Income before Income Taxes	792	1,098	1,607	2,052
Income Tax Expense	93	199	339	378
Net Income	\$ 699	\$ 899	\$ 1,268	\$ 1,674
Basic earnings per common share	\$ 0.12	\$ 0.16	\$ 0.22	\$ 0.29
Diluted earnings per common share	\$ 0.12	\$ 0.16	\$ 0.21	\$ 0.29
Dividends declared per share	\$ 0.07	\$ 0.07	\$ 0.14	\$ 0.14

See notes to consolidated financial statements.

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Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income/(Loss)

	Three Months Ended June 30, 2015 2014 (Unaudited) (Dollars in thousands)	
Net Income	\$ 699	\$ 899
Other Comprehensive (Loss) Income, net of tax benefit (expense)		
Unrealized holding (losses) gains on securities available for sale, net of tax benefit (expense)	(1,025)	940
Reclassification adjustments related to:		
Recovery on previously impaired investment securities included in net income, net of tax expense	(29)	(11)
Net gain on sale of securities included in net income, net of tax expense	-	(96)
Total Other Comprehensive (Loss) Income	(1,054)	833
Total Comprehensive (Loss) Income	\$ (355)	\$ 1,732
	Six Months Ended June 30, 2015 2014 (Unaudited) (Dollars in thousands)	
Net Income	\$ 1,268	\$ 1,674
Other Comprehensive (Loss) Income, net of tax benefit (expense)		
Unrealized holding (losses) gains on securities available for sale, net of tax benefit (expense)	(452)	2,466
Reclassification adjustments related to:		
Recovery on previously impaired investment securities included in net income, net of tax expense	(50)	(62)
Net gain on sale of securities included in net income, net of tax expense	-	(36)
Total Other Comprehensive (Loss) Income	(502)	2,368

Total Comprehensive Income	\$ 766	\$ 4,042
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See notes to consolidated financial statements.

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Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Stockholders' Equity

Six Months Ended June 30, 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	-	-	-	-	-	1,674	-	1,674
Other comprehensive income, net of tax expense of \$1,495	-	-	-	-	-	-	2,368	2,368
ESOP shares earned (3,968 shares)	-	6	-	43	-	-	-	49
Stock based compensation	-	2	-	-	-	-	-	2
Compensation plan shares granted (3,518 shares)	-	-	33	-	(33)	-	-	-
Compensation plan shares earned (1,942 shares)	-	3	-	-	23	-	-	26
Purchase of treasury stock, at cost (5,000 shares)	-	-	(62)	-	-	-	-	(62)
Cash dividends declared (\$0.14 per share)	-	-	-	-	-	(294)	-	(294)
Balance - June 30, 2014	\$ 66	\$ 28,050	\$ (6,617)	\$ (1,833)	\$ (509)	\$ 47,004	\$ 2,873	\$ 69,034
Balance - January 1, 2015	\$ 67	\$ 28,684	\$ (6,420)	\$ (1,791)	\$ (622)	\$ 48,192	\$ 3,520	\$ 71,630
Net income	-	-	-	-	-	1,268	-	1,268
Other comprehensive loss, net of tax benefit of \$666	-	-	-	-	-	-	(502)	(502)
Stock options exercised (11,775 shares)	-	136	-	-	-	-	-	136
ESOP shares earned (3,968 shares)	-	11	-	43	-	-	-	54
	-	1	-	-	-	-	-	1

Stock based compensation								
Compensation plan shares granted (15,455 shares)	-	-	145	-	(145)	-	-	-
Compensation plan shares earned (8,443 shares)	-	16	-	-	91	-	-	107
Purchase of treasury stock, at cost (39,900 shares)	-	-	(541)	-	-	-	-	(541)
Cash dividends declared (\$0.14 per share)	-	-	-	-	-	(307)	-	(307)
Balance - June 30, 2015	\$ 67	\$ 28,848	\$ (6,816)	\$ (1,748)	\$ (676)	\$ 49,153	\$ 3,018	\$ 71,846

See notes to consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows

	Six Months Ended	
	June 30,	2014
	2015	(Unaudited)
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,268	\$ 1,674
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of investment securities	162	147
Amortization of deferred loan costs	244	217
Provision for loan losses	210	-
Recovery on previously impaired investment securities	(75)	(101)
Net gain on sale of investment securities	-	(59)
Originations of loans held for sale	(3,277)	(112)
Proceeds from sales of loans held for sale	3,322	112
Net gain on sale of loans	(45)	-
Depreciation and amortization	415	366
Increase in bank owned life insurance, net	(136)	(125)
ESOP shares committed to be released	54	49
Stock based compensation expense	108	28
Decrease in accrued interest receivable	15	79
Decrease in other assets	473	156
(Decrease) increase in other liabilities	(204)	187
Net Cash Provided by Operating Activities	2,534	2,618
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available for sale securities:		
Sales	-	10,337
Maturities, prepayments and calls	7,753	7,063
Purchases of Federal Home Loan Bank Stock	(29)	(351)
Redemptions of Federal Home Loan Bank Stock	49	362
Loan origination and principal collections, net	(12,188)	504
Additions to premises and equipment	(147)	(321)
Net Cash (Used in) Provided by Investing Activities	(4,562)	17,594
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(5,094)	4,558
Net decrease in advances from borrowers for taxes and insurance	(131)	(93)
Net decrease in short term borrowings	-	(11,650)
Proceeds from issuance of long-term debt	3,250	15,200
Repayment of long-term debt	(3,250)	