

ESSA Bancorp, Inc.  
Form 10-Q  
August 09, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

x **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended June 30, 2011

OR

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from            to

Commission File No. 001-33384

**ESSA Bancorp, Inc.**

(Exact name of registrant as specified in its charter)

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**Pennsylvania**  
(State or other jurisdiction of  
incorporation or organization)

**20-8023072**  
(I.R.S. Employer  
Identification Number)

**200 Palmer Street, Stroudsburg, Pennsylvania**  
(Address of Principal Executive Offices)

**18360**  
(Zip Code)

**(570) 421-0531**

(Registrant's telephone number)

N/A

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  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" and "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  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

As of August 4, 2011 there were 12,454,622 shares of the Registrant's common stock, par value \$0.01 per share, outstanding.

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## ESSA BANCORP, INC. AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	June 30, 2011	September 30, 2010
	(dollars in thousands)	
Cash and due from banks	\$ 8,604	\$ 7,454
Interest-bearing deposits with other institutions	13,193	3,436
<b>Total cash and cash equivalents</b>	<b>21,797</b>	<b>10,890</b>
Investment securities available for sale	256,166	252,341
Investment securities held to maturity (fair value of \$9,834 and \$13,254)	9,479	12,795
Loans receivable (net of allowance for loan losses of \$8,225 and \$7,448)	741,764	730,842
Federal Home Loan Bank stock	17,770	20,727
Premises and equipment, net	11,682	12,189
Bank-owned life insurance	23,057	15,618
Foreclosed real estate	2,039	2,034
Intangible assets, net	1,906	
Goodwill	40	
Other assets	16,923	14,561
<b>TOTAL ASSETS</b>	<b>\$ 1,102,623</b>	<b>\$ 1,071,997</b>
<b>LIABILITIES</b>		
Deposits	\$ 655,369	\$ 540,410
Short-term borrowings		14,719
Other borrowings	269,657	335,357
Advances by borrowers for taxes and insurance	6,550	1,465
Other liabilities	6,448	8,423
<b>TOTAL LIABILITIES</b>	<b>938,024</b>	<b>900,374</b>
Commitment and contingencies		
<b>STOCKHOLDERS EQUITY</b>		
Preferred Stock (\$.01 par value; 10,000,000 shares authorized, none issued)		
Common stock (\$.01 par value; 40,000,000 shares authorized, 16,980,900 issued; 12,645,522 and 13,482,612 outstanding at June 30, 2011 and September 30, 2010)	170	170
Additional paid in capital	166,208	164,494
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(11,551)	(11,891)
Retained earnings	65,973	64,272
Treasury stock, at cost; 4,335,378 and 3,498,288 shares at June 30, 2011 and September 30, 2010, respectively	(55,436)	(44,870)
Accumulated other comprehensive loss	(765)	(552)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>164,599</b>	<b>171,623</b>

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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,102,623	\$ 1,071,997
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See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF INCOME  
(UNAUDITED)

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2011	2010	2011	2010
(dollars in thousands, except per share data)				
<b>INTEREST INCOME</b>				
Loans receivable	\$ 9,683	\$ 10,105	\$ 29,322	\$ 30,612
Investment securities:				
Taxable	2,092	1,925	6,030	6,326
Exempt from federal income tax	66	78	219	238
Other investment income	1	3	2	5
<b>Total interest income</b>	<b>11,842</b>	<b>12,111</b>	<b>35,573</b>	<b>37,181</b>
<b>INTEREST EXPENSE</b>				
Deposits	1,932	1,769	5,423	4,633
Short-term borrowings	1	1	46	85
Other borrowings	2,549	3,670	8,272	11,305
<b>Total interest expense</b>	<b>4,482</b>	<b>5,440</b>	<b>13,741</b>	<b>16,023</b>
<b>NET INTEREST INCOME</b>	<b>7,360</b>	<b>6,671</b>	<b>21,832</b>	<b>21,158</b>
Provision for loan losses	475	500	1,605	1,650
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>6,885</b>	<b>6,171</b>	<b>20,227</b>	<b>19,508</b>
<b>NONINTEREST INCOME</b>				
Service fees on deposit accounts	768	799	2,259	2,403
Services charges and fees on loans	142	126	497	351
Trust and investment fees	190	203	596	635
Gain on sale of investments, net	56	305	171	613
Gain on sale of loans, net		41	3	236
Earnings on bank-owned life insurance	170	135	438	410
Insurance commissions	125		125	
Other	8	10	28	34
<b>Total noninterest income</b>	<b>1,459</b>	<b>1,619</b>	<b>4,117</b>	<b>4,682</b>
<b>NONINTEREST EXPENSE</b>				
Compensation and employee benefits	3,899	3,731	11,712	11,068
Occupancy and equipment	758	823	2,331	2,145
Professional fees	411	373	1,260	1,136
Data processing	477	524	1,407	1,441
Advertising	165	208	534	472
Federal Deposit Insurance Corporation (FDIC) premiums	196	157	602	638
Loss on foreclosed real estate, net	81		93	1,200

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Amortization of intangible assets	54		54	
Other	526	519	1,667	1,511
Total noninterest expense	6,567	6,335	19,660	19,611
Income before income taxes	1,777	1,455	4,684	4,579
Income taxes	536	387	1,216	1,114
<b>NET INCOME</b>	<b>\$ 1,241</b>	<b>\$ 1,068</b>	<b>\$ 3,468</b>	<b>\$ 3,465</b>
Earnings per share				
Basic	\$ 0.11	\$ 0.09	\$ 0.30	\$ 0.27
Diluted	\$ 0.11	\$ 0.09	\$ 0.30	\$ 0.27
Dividends per share	\$ 0.05	\$ 0.05	\$ 0.15	\$ 0.15

See accompanying notes to the unaudited consolidated financial statements.

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## ESSA BANCORP, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(UNAUDITED)

	Common Stock		Additional Paid In Capital	Unallocated Common Stock Held by the ESOP	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders Equity
	Number of Shares	Amount						
Balance, September 30, 2010	13,482,612	\$ 170	\$ 164,494	\$ (11,891)	\$ 64,272	\$ (44,870)	\$ (552)	\$ 171,623
(Dollars in thousands, except number of shares)								
Net income					3,468			3,468
Other comprehensive loss:								
Unrealized loss on securities available for sale, net of income tax benefit of \$214							(417)	(417)
Change in unrecognized pension cost, net of income taxes of \$105							204	204
Cash dividends declared (\$.15 per share)					(1,767)			(1,767)
Stock based compensation			1,628					1,628
Allocation of ESOP stock			86	340				426
Treasury shares purchased	(837,090)					(10,566)		(10,566)
Balance, June 30, 2011	12,645,522	\$ 170	\$ 166,208	\$ (11,551)	\$ 65,973	\$ (55,436)	\$ (765)	\$ 164,599

See accompanying notes to the unaudited consolidated financial statements.



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## ESSA BANCORP, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	<b>For the Nine Months Ended June 30, 2011                      2010 (dollars in thousands)</b>	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 3,468	\$ 3,465
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,605	1,650
Provision for depreciation and amortization.	830	895
Amortization of discounts and premiums, net	906	474
Gain on sale of investment securities, net	(171)	(613)
Gain on sale of loans, net	(3)	(236)
Origination of mortgage loans sold	(97)	(9,750)
Proceeds from sale of mortgage loans originated for sale	100	9,986
Compensation expense on ESOP	426	420
Stock based compensation	1,628	1,604
Decrease in accrued interest receivable	166	208
Increase in accrued interest payable	103	191
Earnings on bank-owned life insurance	(438)	(410)
Deferred federal income taxes	(597)	(50)
(Increase) decrease in prepaid FDIC premiums	553	(1,455)
Decrease in accrued pension liability	(845)	(1,196)
Loss on foreclosed real estate, net	335	1,200
Amortization of intangible assets	54	
Other, net	(1,062)	(1,811)
Net cash provided by operating activities	6,961	4,572
<b>INVESTING ACTIVITIES</b>		
Proceeds from repayments of certificates of deposit		3,385
Investment securities available for sale:		
Proceeds from sale of investment securities	7,660	28,105
Proceeds from principal repayments and maturities	67,885	47,113
Purchases	(80,748)	(88,275)
Investment securities held to maturity:		
Proceeds from sale of investment securities	643	
Proceeds from principal repayments and maturities	2,673	3,024
Purchases		(10,163)
(Increase) decrease in loans receivable, net	(14,687)	1,127
Redemption of FHLB stock	2,957	
Purchase of bank owned life insurance	(7,001)	
Proceeds from sale of other real estate	1,889	
Investment in limited partnership	(2,170)	
Capital improvements to foreclosed real estate	(46)	(63)
Purchase of insurance subsidiary	(2,025)	
Purchase of premises, equipment, and software	(297)	(2,859)
Net cash used for investing activities	(23,267)	(18,606)

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FINANCING ACTIVITIES

Increase in deposits, net	114,959	107,018
Net decrease in short-term borrowings	(14,719)	(48,091)
Proceeds from other borrowings	8,300	17,250
Repayment of other borrowings	(74,000)	(45,500)
Increase in advances by borrowers for taxes and insurance	5,085	4,847
Purchase of treasury stock.	(10,645)	(12,421)
Dividends on common stock	(1,767)	(1,958)

Net cash provided by financing activities	27,213	21,145
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Increase in cash and cash equivalents	10,907	7,111
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CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	10,890	18,593
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CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 21,797	\$ 25,704
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SUPPLEMENTAL CASH FLOW DISCLOSURES

Cash Paid:

Interest	\$ 13,638	\$ 15,832
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Income taxes	2,475	1,869
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Noncash items:

Transfers from loans to foreclosed real estate	2,171	699
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Treasury stock payable	(79)	\$ (159)
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Acquisition of Insurance Subsidiary:

Cash Paid	(2,025)	
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Noncash assets received and liabilities assumed:

Goodwill	40	
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Intangible assets	1,960	
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Premises and equipment	25	
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See accompanying notes to the unaudited consolidated financial statements.

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## ESSA BANCORP, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

(unaudited)

**1. Nature of Operations and Basis of Presentation**

The unaudited, consolidated financial statements include the accounts of ESSA Bancorp, Inc. (the Company), and its wholly owned subsidiary, ESSA Bank & Trust (the Bank), and the Bank's wholly owned subsidiaries, ESSACOR Inc, Pocono Investment Company and ESSA Advisory Services, LLC. The primary purpose of the Company is to act as a holding company for the Bank. The Company has been subject to regulation and supervision as a savings and loan holding company by the Office of Thrift Supervision (the OTS). As of July 21, 2011, the Federal Reserve Board assumed regulation and supervision of savings and loan holding companies as required by the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010. The Bank is a Pennsylvania chartered savings association located in Stroudsburg, Pennsylvania. The Bank's primary business consists of the taking of deposits and granting of loans to customers generally in Monroe, Northampton and Lehigh counties, Pennsylvania. The Bank has been subject to regulation and supervision by the Pennsylvania Banking Department and the OTS. Pursuant to the Dodd Frank Act referred to above, the role of the OTS was assumed by the Federal Deposit Insurance Corporation as of July 21, 2011. The investment in subsidiary on the parent company's financial statements is carried at the parent company's equity in the underlying net assets.

ESSACOR, Inc. is a Pennsylvania corporation that is currently inactive. Pocono Investment Company is a Delaware corporation formed as an investment company subsidiary to hold and manage certain investments, including certain intellectual property. ESSA Advisory Services, LLC is a Pennsylvania limited liability company owned 100% by ESSA Bank & Trust. ESSA Advisory Services, LLC is a full-service insurance benefits consulting company offering group services such as health insurance, life insurance, short term and long term disability, dental, vision and 401(k) retirement planning as well as individual health products. All significant intercompany transactions have been eliminated in consolidation.

The unaudited consolidated financial statements reflect all adjustments, which in the opinion of management are necessary for a fair presentation of the results of the interim periods and are of a normal and recurring nature. Operating results for the three and nine month periods ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending September 30, 2011.

**2. Earnings per Share**

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation for the three and nine month periods ended June 30, 2011 and 2010.

	Three months ended		Nine months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Weighted-average common shares outstanding	16,980,900	16,980,900	16,980,900	16,980,900
Average treasury stock shares	(4,226,817)	(2,892,908)	(3,918,021)	(2,555,593)
Average unearned ESOP shares	(1,148,618)	(1,193,894)	(1,159,979)	(1,205,255)
Average unearned non-vested shares	(254,845)	(373,905)	(264,070)	(383,006)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	11,350,620	12,520,193	11,638,830	12,837,046
Additional common stock equivalents (non-vested stock) used to calculate diluted earnings per share				
Additional common stock equivalents (stock options) used to calculate diluted earnings per share				
	11,350,620	12,520,193	11,638,830	12,837,046

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Weighted average common shares and common stock  
equivalents used to calculate diluted earnings per share

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At June 30, 2011 and 2010 there were options to purchase 1,458,379 shares of common stock outstanding at a price of \$12.35 per share that were not included in the computation of diluted EPS because to do so would have been anti-dilutive. At June 30, 2011 and 2010 there were 224,566 and 342,656 shares, respectively, of nonvested stock outstanding at a price of \$12.35 per share that were not included in the computation of diluted EPS because to do so would have been anti-dilutive.

**3. Use of Estimates in the Preparation of Financial Statements**

The accounting principles followed by the Company and its subsidiaries and the methods of applying these principles conform to U.S. generally accepted accounting principles and to general practice within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the consolidated balance sheet date and related revenues and expenses for the period. Actual results could differ significantly from those estimates.

**4. Comprehensive Income**

The components of other comprehensive income are as follows (in thousands):

	Three Months Ended June 30		Nine Months Ended June 30	
	2011	2010	2011	2010
Net income	\$ 1,241	\$ 1,068	\$ 3,468	\$ 3,465
Unrealized gain/(loss) on securities available for sale	4,178	1,683	(460)	