ESSA Bancorp, Inc.
Form 10-Q
February 09, 2012
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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 December 31, 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)

Pennsylvania	**20-8023072**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
200 Palmer Street, Stroudsburg, Pennsylvania	**18360**
(Address of Principal Executive Offices)	**(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 x 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 x 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	x
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 x

As of February 6, 2012 there were 12,109,622 shares of the Registrant s common stock, par value $0.01 per share, outstanding.

ESSA Bancorp, Inc.

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Part I. Financial Information

Item 1. Financial Statements

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	December 31, 2011	September 30, 2011
	(dollars in thousands)	
Cash and due from banks	$ 9,087	$ 9,801
Interest-bearing deposits with other institutions	19,977	31,893
Total cash and cash equivalents	29,064	41,694
Investment securities available for sale, at fair value	254,746	245,393
Loans receivable (net of allowance for loan losses of $8,393 and $8,170)	742,100	738,619
Federal Home Loan Bank stock, at cost	16,038	16,882
Premises and equipment, net	11,470	11,494
Bank-owned life insurance	23,454	23,256
Foreclosed real estate	2,103	2,356
Intangible assets, net	1,744	1,825
Goodwill	40	40
Other assets	16,312	15,921
TOTAL ASSETS	$ 1,097,071	$ 1,097,480
LIABILITIES		
Deposits	$ 640,344	$ 637,924
Short-term borrowings	10,000	4,000
Other borrowings	273,410	284,410
Advances by borrowers for taxes and insurance	3,728	1,381
Other liabilities	8,072	8,086
TOTAL LIABILITIES	935,554	935,801
STOCKHOLDERS EQUITY		
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; 12,109,622 outstanding at December 31, 2011 and September 30, 2011)	170	170
Additional paid in capital	167,300	166,758
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(11,325)	(11,438)
Retained earnings	67,555	67,215
Treasury stock, at cost; 4,871,278 shares at December 31, 2011 and September 30, 2011	(61,612)	(61,612)
Accumulated other comprehensive (loss)/income	(571)	586
TOTAL STOCKHOLDERS EQUITY	161,517	161,679
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,097,071	$ 1,097,480

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 December 31,	
	2011	2010
	(dollars in thousands)	
INTEREST INCOME		
Loans receivable, including fees	$ 9,341	$ 9,844
Investment securities:		
Taxable	1,638	1,922
Exempt from federal income tax	48	78
Other investment income	2	
Total interest income	11,029	11,844
INTEREST EXPENSE		
Deposits	1,911	1,696
Short-term borrowings	5	22
Other borrowings	2,405	2,996
Total interest expense	4,321	4,714
NET INTEREST INCOME	6,708	7,130
Provision for loan losses	500	480
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,208	6,650
NONINTEREST INCOME		
Service fees on deposit accounts	727	762
Services charges and fees on loans	184	210
Trust and investment fees	215	211
Gain on sale of loans, net		3
Earnings on bank-owned life insurance	198	137
Insurance commissions	191	
Other	9	12
Total noninterest income	1,524	1,335
NONINTEREST EXPENSE		
Compensation and employee benefits	3,936	3,880
Occupancy and equipment	756	777
Professional fees	490	429
Data processing	482	449
Advertising	86	186
Federal Deposit Insurance Corporation (FDIC) premiums	162	184
Loss on foreclosed real estate, net	67	106
Amortization of intangible assets	81	

Other	602	627
Total noninterest expense	6,662	6,638
Income before income taxes	1,070	1,347
Income taxes	184	335
NET INCOME	$ 886	$ 1,012
Earnings per share		
Basic	$ 0.08	$ 0.09
Diluted	$ 0.08	$ 0.09
Dividends per share	$ 0.05	$ 0.05

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	Unallocated Common			Accumulated Other	Total
	Number of Shares	Amount	Paid In Capital	Stock Held by the ESOP	Retained Earnings	Treasury Stock	Comprehensive Income/(Loss)	Stockholders Equity
				(Dollars in thousands)				
Balance, September 30, 2011	12,109,622	$ 170	$ 166,758	$ (11,438)	$ 67,215	$ (61,612)	$ 586	$ 161,679
Net income					886			886
Other comprehensive loss:								
Unrealized loss on securities available for sale, net of income tax benefit of $636							(1,235)	(1,235)
Change in unrecognized pension cost, net of income taxes of $41							78	78
Cash dividends declared ($.05 per share)					(546)			(546)
Stock based compensation			534					534
Allocation of ESOP stock			8	113				121
Balance, December 31, 2011	12,109,622	$ 170	$ 167,300	$ (11,325)	$ 67,555	$ (61,612)	$ (571)	$ 161,517

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For the Three Months Ended December 31, 2011	2010
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 886	$ 1,012
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	500	480
Provision for depreciation and amortization.	240	292
Amortization of discounts and premiums, net	423	379
Gain on sale of loans, net		(3)
Origination of mortgage loans sold		(97)
Proceeds from sale of mortgage loans originated for sale		100
Compensation expense on ESOP	121	147
Stock based compensation	534	560
Decrease in accrued interest receivable	326	328
Increase in accrued interest payable	226	135
Earnings on bank-owned life insurance	(198)	(137)
Deferred federal income taxes	510	(126)
Decrease in prepaid FDIC premiums	146	166
Loss on foreclosed real estate, net	67	106
Amortization of intangible assets	81	
Other, net	51	(12)
Net cash provided by operating activities	3,913	3,330
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from principal repayments and maturities	21,253	34,940
Purchases	(32,895)	(36,687)
Investment securities held to maturity:		
Proceeds from principal repayments and maturities		1,353
Increase in loans receivable, net	(4,272)	(17,860)
Redemption of FHLB stock	844	1,037
Investment in limited partnership	(945)	
Proceeds from sale of foreclosed real estate	472	
Capital improvements to foreclosed real estate		(20)
Purchase of premises, equipment, and software	(221)	(142)
Net cash used for investing activities	(15,764)	(17,379)
FINANCING ACTIVITIES		
Increase in deposits, net	2,420	40,860
Net increase/(decrease) in short-term borrowings	6,000	(2,863)
Proceeds from other borrowings		8,300
Repayment of other borrowings	(11,000)	(33,000)
Increase in advances by borrowers for taxes and insurance	2,347	1,826
Purchase of treasury shares.		(4,019)

Dividends on common stock	(546)	(599)
Net cash (used for)/provided by financing activities	(779)	10,505
Decrease in cash and cash equivalents	(12,630)	(3,544)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	41,694	10,890
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 29,064	$ 7,346
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash Paid:		
Interest	$ 4,096	$ 4,579
Income taxes		375
Noncash items:		
Transfers from loans to foreclosed real estate	286	412
Treasury stock payable		$ (175)

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 percent 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 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 month period ended December 31, 2011 are not necessarily indicative of the results that may be expected for the year ending September 30, 2012.

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 months ended December 31, 2011.

	Three months ended	
	December 31, 2011	**December 31, 2010**
Weighted-average common shares outstanding	16,980,900	16,980,900
Average treasury stock shares	(4,871,278)	(3,658,950)
Average unearned ESOP shares	(1,125,979)	(1,171,255)
Average unearned non-vested shares	(176,045)	(293,358)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	10,807,598	11,857,337
Additional common stock equivalents (stock options) used to calculate diluted earnings per share		2,873
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	10,807,598	11,860,210

At December 31, 2011 and 2010 there were options to purchase 1,458,379 and 317,910 shares, respectively, 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 December 31, 2011 and 2010 there were 165,958 and 283,264 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.

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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 Loss

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

	Three Months Ended December 31	
	2011	**2010**
Net income	$ 886	$ 1,012
Unrealized loss on securities available for sale	(1,871)	(4,253)
Change in unrecognized pension cost	119	103
Other comprehensive loss before tax	(1,752)	(4,150)
Income tax benefit related to comprehensive loss	(595)	(1,411)
Other comprehensive loss	(1,157)	(2,739)
Comprehensive loss	$ (271)	$ (1,727)

5. Recent Accounting Pronouncements

In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310): A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. The amendments in this Update provide additional guidance or clarification to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The amendments in this Update are effective for the first interim or annual reporting period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. The Company has provided the necessary disclosures in Note 8, herein.

In April 2011, the FASB issued ASU 2011-03, *Transfers and Services (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*. The main objective in developing this Update is to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this Update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in this Update apply to all entities, both public and nonpublic. The amendments affect all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The guidance in this Update is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. This ASU is not expected to have a significant impact on the Company s financial statements.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* The

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amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. Early application by public entities is not permitted. This ASU is not expected to have a significant impact on the Company s financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income.* The amendments in this Update improve the comparability, clarity, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS, the option to present components of other comprehensive income as part of the statement of changes in stockholders equity was eliminated. The amendments require that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. All entities that report items of comprehensive income, in any period presented, will be affected by the changes in this Update. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The amendments in this Update should be applied retrospectively, and early adoption is permitted. This ASU is not expected to have a significant impact on the Company s financial statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and Other Topics (Topic 350), Testing Goodwill for Impairment*. The objective of this update is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this Update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments in this Update apply to all entities, both public and nonpublic, that have goodwill reported in their financial statements and are effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity s financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. This ASU is not expected to have a significant impact on the Company s financial statements.

In September 2011, the FASB issued ASU 2011-09, *Compensation-Retirement Benefits-Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer s Participation in a Multiemployer Plan*. The amendments in this Update will require additional disclosures about an employer s participation in a multiemployer pension plan to enable users of financial statements to assess the potential cash flow implications relating to an employer s participation in multiemployer pension plans. The disclosures also will indicate the financial health of all of the significant plans in which the employer participates and assist a financial statement user to access additional information that is available outside the financial statements. For public entities, the amendments in this Update are effective for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted. For nonpublic entities, the amendments are effective for annual periods of fiscal years ending after December 15, 2012, with early adoption permitted. The amendments should be applied retrospectively for all prior periods presented. This ASU is not expected to have a significant impact on the Company s financial statements.

In December 2011, the FASB issued ASU 2011-10, *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate-a Scope Clarification.* The amendments in this Update affect entities that cease to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on

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the subsidiary s nonrecourse debt. Under the amendments in this Update, when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt, the reporting entity should apply the guidance in Subtopic 360-20 to determine whether it should derecognize the in substance real estate. Generally, a reporting entity would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse indebtedness. That is, even if the reporting entity ceases to have a controlling financial interest under Subtopic 810-10, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary s operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt. The amendments in this Update should be applied on a prospective basis to deconsolidation events occurring after the effective date. Prior periods should not be adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2013, and interim and annual periods thereafter. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company s financial.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. The amendments in this Update affect all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements on offsetting in Section 210-20-50. This information will enable users of an entity s financial statements to evaluate the effect or potential effect of netting arrangements on an entity s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. This ASU is not expected to have a significant impact on the Company s financial statements.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05. All other requirements in Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities should begin applying these requirements for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. This ASU is not expected to have a significant impact on the Company s financial statements.

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6. Investment Securities

The amortized cost and fair value of investment securities available for sale and held to maturity are summarized as follows (in thousands):

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 120,276	$ 3,469	$ (15)	$ 123,730
Freddie Mac	46,549	1,638	(7)	48,180
Governmental National Mortgage Association	35,817	789	(62)	36,544
Total mortgage-backed securities	202,642	5,896	(84)	208,454
Obligations of states and political subdivisions	19,584	865	(47)	20,402
U.S. government agency securities	19,710	228	(6)	19,932
Corporate obligations	6,084	39	(185)	5,938
Total debt securities	248,020	7,028	(322)	254,726
Equity securities - financial services	12	8		20
Total	$ 248,032	$ 7,036	$ (322)	$ 254,746

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 118,945	$ 4,618	$ (11)	$ 123,552
Freddie Mac	47,449	2,207		49,656
Governmental National Mortgage Association	30,247	802	(48)	31,001
Total mortgage-backed securities	196,641	7,627	(59)	204,209
Obligations of states and political subdivisions	13,760	789	(50)	14,499
U.S. government agency securities	21,797	289	(3)	22,083
Corporate obligations	4,598	26	(40)	4,584
Total debt securities	236,796	8,731	(152)	245,375
Equity securities - financial services	11	7		18
Total	$ 236,807	$ 8,738	$ (152)	$ 245,393

The amortized cost and fair value of debt securities at December 31, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	Available For Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 4,146	$ 4,169
Due after one year through five years	14,980	15,080
Due after five years through ten years	55,077	56,313
Due after ten years	173,817	179,164

Total	$ 248,020	$ 254,726

The Company did not sell any investment securities during the three months ended December 31, 2011.

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7. Unrealized Losses on Securities

The following table shows the Company s gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position (in thousands):

	December 31, 2011						
		Less than Twelve Months		Twelve Months or Greater		Total	
	Number of Securities	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	3	$ 4,882	$ (15)	$	$	$ 4,882	$ (15)
Freddie Mac	1	1,820	(7)			1,820	(7)
Governmental National Mortgage Association	5	4,869	(27)	4,325	(35)	9,194	(62)
Obligations of states and political subdivisions	2	1,482	(12)	904	(35)	2,386	(47)
U.S. government agency securities	3	4,049	(6)			4,049	(6)
Corporate obligations	5	2,315	(185)			2,315	(185)
Total	19	$ 19,417	$ (252)	$ 5,229	$ (70)	$ 24,646	$ (322)

	September 30, 2011						
		Less than Twelve Months		Twelve Months or Greater		Total	
	Number of Securities	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	3	$ 5,156	$ (11)	$	$	$ 5,156	$ (11)
Governmental National Mortgage Association	4	2,723	(11)	4,440	(37)	7,163	(48)
Obligations of states and political subdivisions	2	1,403	(50)			1,403	(50)
U.S. government agency securities	2	3,045	(3)			3,045	(3)
Corporate obligations	3	1,460	(40)			1,460	(40)
Total	14	$ 13,787	$ (115)	$ 4,440	$ (37)	$ 18,227	$ (152)

The Company s investment securities portfolio contains unrealized losses on securities, including mortgage-related instruments issued or backed by the full faith and credit of the United States government, or generally viewed as having the implied guarantee of the U.S. government, debt obligations of a U.S. state or political subdivision and corporate debt obligations.

The Company reviews its position quarterly and has asserted that at December 31, 2011, the declines outlined in the above table represent temporary declines and the Company would not be required to sell the security before its anticipated recovery in market value.

The Company has concluded that any impairment of its investment securities portfolio is not other than temporary but is the result of interest rate changes that are not expected to result in the non-collection of principal and interest during the period.

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8. Loans Receivable, Net and Allowance for Loan Losses

Loans receivable consist of the following (in thousands):

	December 31, 2011	September 30, 2011
Real Estate Loans:		
Residential	$ 591,443	$ 583,599
Construction	1,164	691
Commercial	102,141	105,231
Commercial	13,925	14,766
Home equity loans and lines of credit	39,735	40,484
Other	2,085	2,018
	750,493	746,789
Less allowance for loan losses	8,393	8,170
Net loans	$ 742,100	$ 738,619

	Real Estate Loans						
	Residential	Construction	Commercial	Commercial Loans	Home Equity and Lines of Credit	Other Loans	Total
				(dollars in thousands)			
December 31, 2011							
Total Loans	$ 591,443	$ 1,164	$ 102,141	$ 13,925	$ 39,735	$ 2,085	$ 750,493
Individually evaluated for impairment	5,363		13,606	366	263	58	19,656
Collectively evaluated for impairment	586,080	1,164	88,535	13,559	39,472	2,027	730,837

	Real Estate Loans						
	Residential	Construction	Commercial	Commercial Loans	Home Equity and Lines of Credit	Other Loans	Total
				(dollars in thousands)			
September 30, 2011							
Total Loans	$ 583,599	$ 691	$ 105,231	$ 14,766	$ 40,484	$ 2,018	$ 746,789
Individually evaluated for impairment	5,441		11,916	490	314	58	18,219
Collectively evaluated for impairment	578,158	691	93,315	14,276	40,170	1,960	728,570

We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Impairment is measured on a loan-by-loan basis for commercial and construction loans by the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price, 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 Company does not separately identify individual consumer and residential mortgage loans for impairment disclosures, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

A loan is considered to be a troubled debt restructuring (TDR) loan when the Company grants a concession to the borrower because of the borrower s financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk. TDR loans that are in compliance with their modified terms and that yield a market rate may be removed from the TDR status after a period of performance.

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable. Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired.

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2011					
With no specific allowance recorded:					
Real Estate Loans					
Residential	$ 2,612	$ 2,614	$	$ 3,003	$
Construction					
Commercial	10,932	10,972		10,016	8
Commercial	136	136		204	2
Home equity loans and lines of credit	126	126		163	
Other	58	58		58	
Total	13,864	13,906		13,444	10
With an allowance recorded:					
Real Estate Loans					
Residential	2,751	2,755	520	2,427	
Construction					
Commercial	2,674	2,679	768	2,417	26
Commercial	230	229	103	118	2
Home equity loans and lines of credit	137	137	67	138	
Other					
Total	5,792	5,800	1,458	5,100	28
Total:					
Real Estate Loans					
Residential	5,363	5,369	520	5,430	
Construction					
Commercial	13,606	13,651	768	12,433	34
Commercial	366	365	103	322	4
Home equity loans and lines of credit	263	263	67	301	
Other	58	58		58	
Total Impaired Loans	$ 19,656	$ 19,706	$ 1,458	$ 18,544	$ 38

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	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2011					
With no specific allowance recorded:					
Real Estate Loans					
Residential	$ 2,623	$ 2,621	$	$ 3,397	$
Construction					
Commercial	9,557	9,501		3,375	41
Commercial	225	220		123	5
Home equity loans and lines of credit	126	126		95	
Other	58	58		58	
Total	12,589	12,526		7,048	46
With an allowance recorded:					
Real Estate Loans					
Residential	2,818	2,811	475	2,257	
Construction					
Commercial	2,359	2,297	466	1,279	60
Commercial	265	263	101	36	3
Home equity loans and lines of credit	188	188	118	98	
Other					
Total	5,630	5,559	1,160	3,670	63
Total:					
Real Estate Loans					
Residential	5,441	5,432	475	5,654	
Construction					
Commercial	11,916	11,798	466	4,654	101
Commercial	490	483	101	159	8
Home equity loans and lines of credit	314	314	118	193	
Other	58	58		58	
Total Impaired Loans	$ 18,219	$ 18,085	$ 1,160	$ 10,718	$ 109

Management uses a ten point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized, and are aggregated as Pass rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. The portion of any loan that represents a specific allocation of the allowance for loan losses is placed in the Doubtful category. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Bank s Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. The Bank s Commercial Loan Officers perform an annual review of all commercial relationships $250,000 or greater. Confirmation of the appropriate risk grade is included in the review on an ongoing basis. The Bank engages an external consultant to conduct loan reviews on at least a semi-annual basis. Generally, the external consultant reviews commercial relationships greater than $500,000 and/or all criticized relationships. Detailed reviews, including plans for resolution, are performed on loans classified as Substandard on a quarterly basis. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

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The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system as of December 31, 2011 and September 30, 2011 (in thousands):

December 31, 2011	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate loans	88,302		13,071	768	102,141
Commercial	13,559		263	103	13,925
Total	$ 101,861	$	$ 13,334	$ 871	$ 116,066

September 30, 2011	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate loans	91,083		13,682	466	105,231
Commercial	13,781	48	806	131	14,766
Total	$ 104,864	$ 48	$ 14,488	$ 597	$ 119,997

All other loans are underwritten and structured using standardized criteria and characteristics, primarily payment performance, and are normally risk rated and monitored collectively on a monthly basis. These are typically loans to individuals in the consumer categories and are delineated as either performing or non-performing.

	Performing	Non-performing	Total
December 31, 2011			
Real estate loans:			
Residential	$ 581,952	$ 9,491	$ 591,443
Construction	1,164		1,164
Home Equity loans and lines of credit	39,315	420	39,735
Other	2,027	58	2,085
Total	$ 624,458	$ 9,969	$ 634,427

	Performing	Non-performing	Total
September 30, 2011			
Real estate loans:			
Residential	$ 576,745	$ 6,854	$ 583,599
Construction	691		691
Home Equity loans and lines of credit	40,236	248	40,484
Other	1,957	61	2,018
Total	$ 619,629	$ 7,163	$ 626,792

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31, 2011 and September 30, 2011 (in thousands):

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due and still accruing	Non-Accrual	Total Past Due and Non-Accrual	Total Loans
December 31, 2011							
Real estate loans							
Residential	$ 578,150	$ 2,559	$ 1,243	$	$ 9,491	$ 13,293	$ 591,443
Construction	1,164						1,164
Commercial	97,599	586	318		3,638	4,542	102,141
Commercial	13,772				153	153	13,925
Home equity loans and lines of credit	38,963	237	115		420	772	39,735
Other	2,000	21	6		58	85	2,085
Total	$ 731,648	$ 3,403	$ 1,682	$	$ 13,760	$ 18,845	$ 750,493

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	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due and still accruing	Non-Accrual	Total Past Due and Non-Accrual	Total Loans
September 30, 2011							
Real estate loans							
Residential	$ 573,229	$ 2,588	$ 928	$	$ 6,854	$ 10,370	$ 583,599
Construction	691						691
Commercial	101,307	422			3,502	3,924	105,231
Commercial	14,459		1		306	307	14,766
Home equity loans and lines of credit	39,952	97	187		248	532	40,484
Other	1,950	5	2		61	68	2,018
Total	$ 731,588	$ 3,112	$ 1,118	$	$ 10,971	$ 15,201	$ 746,789

Our allowance for loan losses is maintained at a level necessary to absorb loan losses that are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the losses inherent in its loan portfolio and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. Our allowance for loan losses consists of two elements: (1) an allocated allowance, which comprises allowances established on specific loans and class allowances based on historical loss experience and current trends, and (2) an allocated allowance based on general economic conditions and other risk factors in our markets and portfolios. We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions, management s judgment and losses which are probable and reasonably estimable. The allowance is increased through provisions charged against current earnings and recoveries of previously charged-off loans. Loans that are determined to be uncollectible are charged against the allowance. While management uses available information to recognize probable and reasonably estimable loan losses, future loss provisions may be necessary, based on changing economic conditions. Payments received on impaired loans generally are either applied against principal or reported as interest income, according to management s judgment as to the collectability of principal. The allowance for loan losses as of December 31, 2011 is maintained at a level that represents management s best estimate of losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable.

In addition, the FDIC and the Pennsylvania Department of Banking, as an integral part of their examination process, have periodically reviewed our allowance for loan losses. The banking regulators may require that we recognize additions to the allowance based on its analysis and review of information available to it at the time of its examination.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

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The following table summarizes the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2011 (in thousands):

	Real Estate Loans				Home Equity			
	Residential	Construction	Commercial	Commercial Loans	Loans and Lines of Credit	Other Loans	Unallocated	Total
ALL balance at September 30, 2011	$ 5,220	$ 8	$ 1,329	$ 500	$ 622	$ 80	$ 411	$ 8,170
Charge-offs	(180)				(114)	(3)		(297)
Recoveries				20				20
Provision	522		193	(13)	17	58	(277)	500
ALL balance at December 31, 2011	$ 5,562	$ 8	$ 1,522	$ 507	$ 525	$ 135	$ 134	$ 8,393
Individually evaluated for impairment	520		768	103	67			1,458
Collectively evaluated for impairment	5,042	8	754	404	458	135	134	6,935
ALL balance at December 31, 2011	$ 5,562	$ 8	$ 1,522	$ 507	$ 525	$ 135	$ 134	$ 8,393

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date. The Company allocated increased provisions to the residential real estate, commercial and home equity loans and lines of credit segments for the nine month period ending December 31, 2011 due to increased charge off activity in those segments. Despite the above allocations, the allowance for loan losses is general in nature and is available to absorb losses from any loan segment.

The activity in the allowance for loan losses is summarized as follows (in thousands):

	Three Months Ended December 31,	
	2011	2010
Balance, beginning of period	$ 8,170	$ 7,448
Add		
Provision charged to operations	500	480
Loan recoveries	20	48
	8,690	7,976
Less loans charged off	(297)	(238)
Balance, end of period	$ 8,393	$ 7,738

The following is a summary of troubled debt restructuring granted during the past three months.

	For the Three Months Ended December 31, 2011		
	Number of Contracts	Pre-Modification Outstanding Recorded	Post-Modification Outstanding Recorded

		Investment	Investment
Troubled Debt Restructurings			
Real estate loans:			
Residential	1	$ 320	$ 320
Construction			
Commercial	5	1,614	1,614
Commercial	3	216	217
Home equity loans and lines of credit			
Other			
Total	9	$ 2,150	$ 2,151

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The following is a summary of troubled debt restructurings that have subsequently defaulted within one year of modification.

	For the Twelve Months Ended December 31, 2011	
	Number of Contracts	Recorded Investment
Troubled Debt Restructurings		
Real estate loans:		
Residential	3	$ 609
Construction		
Commercial		
Commercial		
Home equity loans and lines of credit	1	80
Other		
Total	4	$ 689

9. Deposits

Deposits consist of the following major classifications (in thousands):

	December 31, 2011	**September 30, 2011**
Non-interest bearing demand accounts	$ 30,843	$ 33,296
NOW accounts	61,387	65,074
Money market accounts	110,362	114,617
Savings and club accounts	73,536	73,058
Certificates of deposit	364,216	351,879
Total	$ 640,344	$ 637,924

10. Net Periodic Benefit Cost-Defined Benefit Plan

For a detailed disclosure on the Bank s pension and employee benefits plans, please refer to Note 13 of the Company s Consolidated Financial Statements for the year ended September 30, 2011 included in the Company s Form 10-K.

The following table comprises the components of net periodic benefit cost for the periods ended (in thousands):

	Three Months Ended December 31,	
	2011	**2010**
Service Cost	$ 149	$ 133
Interest Cost	178	174
Expected return on plan assets	(203)	(192)
Amortization of prior service cost		2
Amortization of unrecognized loss	119	101

Net periodic benefit cost	$ 243	$ 218

The Bank plans to contribute $400,000 to its pension plan in May 2012.

11. Equity Incentive Plan

The Company maintains the ESSA Bancorp, Inc. 2007 Equity Incentive Plan (the Plan). The Plan provides for a total of 2,377,326 shares of common stock for issuance upon the grant or exercise of awards. Of the shares available under the Plan, 1,698,090 may be issued in connection with the exercise of stock options and 679,236 may be issued as restricted stock. The Plan allows for the granting of non-qualified stock options (NSOs), incentive stock options (ISOs), and restricted stock. Options are granted at no less than the fair value of the Company s common stock on the date of the grant.

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Certain officers, employees and outside directors were granted in aggregate 1,140,469 NSOs; 317,910 ISOs; and 590,320 shares of restricted stock. In accordance with generally accepted accounting principles for *Share-Based Payments,* the Company expenses the fair value of all share-based compensation grants over the requisite service periods.

The Company classifies share-based compensation for employees and outside directors within Compensation and employee benefits in the consolidated statement of income to correspond with the same line item as compensation paid. Additionally, generally accepted accounting principles require the Company to report: (1) the expense associated with the grants as an adjustment to operating cash flows and (2) any benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense as a financing cash flow.

Stock options vest over a five-year service period and expire ten years after grant date. The Company recognizes compensation expense for the fair values of these awards, which vest on a straight-line basis over the requisite service period of the awards.

Restricted shares vest over a five-year service period. The product of the number of shares granted and the grant date market price of the Company s common stock determines the fair value of restricted shares under the Company s restricted stock plan. The Company recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the requisite service period for the entire award.

For the three months ended December 31, 2011 and 2010, the Company recorded $534,000 and $560,000 of share-based compensation expense, respectively, comprised of stock option expense of $172,000 and restricted stock expense of $362,000 for the December 31, 2011 period and stock option expense of $190,000 and restricted stock expense of $370,000 for the December 31, 2010 period. Expected future expense relating to the 577,351 non-vested options outstanding as of December 31, 2011, is $973,000 over the remaining vesting period of 1.42 years. Expected future compensation expense relating to the 234,425 restricted shares at December 31, 2011, is $2.1 million over the remaining vesting period of 1.42 years.

The following is a summary of the Company s stock option activity and related information for its option grants for the three month period ended December 31, 2011.

	Number of Stock Options	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding, September 30, 2011	1,458,379	$ 12.35	6.67	$
Granted				
Exercised				
Forfeited				
Outstanding, December 31, 2011	1,458,379	$ 12.35	6.42	$
Exercisable at December 31, 2011	881,027	$ 12.35	6.42	$

The weighted-average grant date fair value of the Company s non-vested options as of December 31, 2011 and 2010 was $2.38.

The following is a summary of the status of the Company s restricted stock as of December 31, 2011, and changes therein during the three month period then ended:

	Number of Restricted Stock	Weighted-average Grant Date Fair Value
Nonvested at September 30, 2011	234,425	$ 12.35
Granted		

Vested		
Forfeited		
Nonvested at December 31, 2011	234,425	$ 12.35

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12. Fair Value Measurement

The following disclosures show the hierarchal disclosure framework associated within the level of pricing observations utilized in measuring assets and liabilities at fair value. The definition of fair value maintains the exchange price notion in earlier definitions of fair value but focuses on the exit price of the asset or liability. The exit price is the price that would be received to sell the asset or paid to transfer the liability adjusted for certain inherent risks and restrictions. Expanded disclosures are also required about the use of fair value to measure assets and liabilities.

The following table presents information about the Company s securities, other real estate owned and impaired loans measured at fair value as of December 31, 2011 and September 30, 2011 and indicates the fair value hierarchy of the valuation techniques utilized by the Bank to determine such fair value:

Fair Value Measurement at December 31, 2011

Fair Value Measurements Utilized for the Company s Financial Assets (in thousands):	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balances as of December 31, 2011
Securities available-for-sale measured on a recurring basis				
Mortgage backed securities	$	$ 208,454	$	$ 208,454
Obligations of states and political subdivisions		20,402		20,402
U.S. government agencies		19,932		19,932
Corporate obligations		5,938		5,938
Equity securities (financial services)	20			20
Total debt and equity securities	$ 20	$ 254,726	$	$ 254,746
Foreclosed real estate owned measured on a non-recurring basis	$	$	$ 2,103	$ 2,103
Impaired loans measured on a non-recurring basis	$	$	$ 18,198	$ 18,198
Mortgage servicing rights measured on a non-recurring basis	$	$	$ 208	$ 208

Fair Value Measurement at September 30, 2011

Fair Value Measurements Utilized for the Company s Financial Assets (in thousands):	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balances as of September 30, 2011
Securities available-for-sale measured on a recurring basis				
Mortgage backed securities	$	$ 204,209	$	$ 204,209
Obligations of states and political subdivisions		14,499		14,499
U.S. government agencies		22,083		22,083
Corporate obligations		4,584		4,584
Equity securities (financial services)	18			18
Total debt and equity securities	$ 18	$ 245,375	$	$ 245,393
Foreclosed real estate owned measured on a non-recurring basis	$	$	$ 2,356	$ 2,356
Impaired loans measured on a non-recurring basis	$	$	$ 17,059	$ 17,059
Mortgage servicing rights measured on a non-recurring basis	$	$	$ 248	$ 248

As required by generally accepted accounting principles, each financial asset and liability must be identified as having been valued according to specified level of input, 1, 2 or 3. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank has the ability to access at the measurement date. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets, and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value

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hierarchy. In such cases, the level in the fair value hierarchy, within which the fair value measurement in its entirety falls, has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset.

The measurement of fair value should be consistent with one of the following valuation techniques: market approach, income approach, and/or cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering factors specific to the measurement (qualitative and quantitative). Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on a security s relationship to other benchmark quoted securities. Most of the securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quoted market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. Securities reported at fair value utilizing Level 1 inputs are limited to actively traded equity securities whose market price is readily available from the New York Stock Exchange or the NASDAQ exchange. Foreclosed real estate is measured at fair value, less cost to sell at the date of foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less cost to sell. Income and expenses from operations and changes in valuation allowance are included in the net expenses from foreclosed real estate. Impaired loans are reported at fair value utilizing level three inputs. For these loans, a review of the collateral is conducted and an appropriate allowance for loan losses is allocated to the loan. At December 31, 2011, 92 impaired loans with a carrying value of $19.7 million were reduced by specific valuation allowance totaling $1.5 million resulting in a net fair value of $18.2 million based on Level 3 inputs.

Disclosures about Fair Value of Financial Instruments

The fair values presented represent the Company s best estimate of fair value using the methodologies discussed below.

	December 31, 2011		September 30, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 29,064	$ 29,064	$ 41,694	$ 41,694
Investment securities available for sale	254,746	254,746	245,393	245,393
Loans receivable, net	742,100	771,956	738,619	773,142
Accrued interest receivable	3,867	3,867	4,193	4,193
FHLB stock	16,038	16,038	16,882	16,882
Mortgage servicing rights	208	208	248	248
Bank owned life insurance	23,454	23,454	23,256	23,256
Financial liabilities:				
Deposits	$ 640,344	$ 641,326	$ 637,924	$ 647,090
Short-term borrowings	10,000	10,000	4,000	4,000
Other borrowings	273,410	284,504	284,410	296,324
Advances by borrowers for taxes and insurance	3,728	3,728	1,381	1,381
Accrued interest payable	1,711	1,711	1,485	1,485

Financial instruments are defined as cash, evidence of an ownership interest in an entity, or a contract which creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the fair value would be calculated based upon the market price per trading unit of the instrument.

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If no readily available market exists, the fair value for financial instruments should be based upon management s judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas or simulation modeling.

As many of these assumptions result from judgments made by management based upon estimates which are inherently uncertain, the resulting values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in the assumptions on which the values are based may have a significant impact on the resulting estimated values.

As certain assets and liabilities, such as deferred tax assets, premises and equipment, and many other operational elements of the Bank, are not considered financial instruments but have value, this fair value of financial instruments would not represent the full market value of the Company.

The Company employed simulation modeling in determining the fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

Cash and Cash Equivalents, Accrued Interest Receivable, Short-Term Borrowings, Advances by Borrowers for Taxes and Insurance, and Accrued Interest Payable

The fair value approximates the current book value.

Bank-Owned Life Insurance

The fair value is equal to the cash surrender value of the Bank-owned life insurance.

Investment and Mortgage-Backed Securities Available for Sale and FHLB Stock

The fair value of investment and mortgage-backed securities available for sale is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities. Since the FHLB stock is not actively traded on a secondary market and held exclusively by member financial institutions, the fair market value approximates the carrying amount.

Loans Receivable, Deposits, Other Borrowings, and Mortgage Servicing Rights

The fair values for loans and mortgage servicing rights are estimated by discounting contractual cash flows and adjusting for prepayment estimates. Discount rates are based upon market rates generally charged for such loans with similar characteristics. Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of year-end. Fair values for time deposits and other borrowings are estimated using a discounted cash flow calculation that applies contractual costs currently being offered in the existing portfolio to current market rates being offered for deposits and borrowings of similar remaining maturities.

Commitments to Extend Credit

These financial instruments are generally not subject to sale, and fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Forward Looking Statements

This quarterly report contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. These forward-looking statements include:

- statements of our goals, intentions and expectations;
- statements regarding our business plans and prospects and growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

By identifying these forward-looking statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those discussed under Risk Factors in Part I, Item 1A of the Company s Annual Report on Form 10-K and Part II, Item 1A of this Report on Form 10-Q, as well as the following factors:

- significantly increased competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- adverse changes in the securities markets;
- legislative or regulatory changes that adversely affect our business;
- our ability to enter new markets successfully and take advantage of growth opportunities, and the possible short-term dilutive effect of potential acquisitions or *de novo* branches, if any;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies and the Financial Accounting Standards Board; and

changes in our organization, compensation and benefit plans.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Comparison of Financial Condition at December 31, 2011 and September 30, 2011

Total Assets. Total assets decreased by $409,000, or 0.04%, to $1,097.1 million at December 31, 2011 from $1,097.5 million at September 30, 2011. This decrease was primarily due to decreases in interest-bearing deposits with other institutions offset, in part, by increases in investment securities available for sale and net loans receivable.

Interest-Bearing Deposits with Other Institutions. Interest-bearing deposits with other institutions decreased $11.9 million, or 37.4%, to $20.0 million at December 31, 2011 from $31.9 million at September 30, 2011. This decrease was primarily the result of the increase in purchases of investment securities available for sale along with increased loan growth at December 31, 2011 from September 30, 2011.

Net Loans. Net loans increased $3.5 million, or 0.5%, to $742.1 million at December 31, 2011 from $738.6 million at September 30, 2011. The increase in net loans receivable was primarily attributed to an increase in residential real estate loans. During this period, residential real estate loans outstanding increased by $7.8 million to $591.4 million. Construction loans increased $473,000 to $1.2 million and other loans increased $67,000 to $2.1 million. These increases were partially offset by decreases in commercial loans outstanding of $841,000 to $13.9 million, commercial real estate loans outstanding of $3.1 million to $102.1 million and home equity loans and lines of credit outstanding of $749,000 to $39.7 million.

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Investment Securities Available for Sale. Investment securities available for sale increased $9.4 million, or 3.8%, to $254.8 million at December 31, 2011 from $245.4 million at September 30, 2011. The increase was due primarily to increases in the Company s municipal bond portfolio of $5.9 million and in its mortgage-backed securities portfolio of $4.2 million.

Deposits. Deposits increased $2.4 million, or 0.4%, to $640.3 million at December 31, 2011 from $637.9 million at September 30, 2011. At December 31, 2011 compared to September 30, 2011, certificate of deposit accounts increased $12.3 million to $364.2 million and savings and club accounts increased $478,000 to $73.5 million. These increases were offset in part during the same period by decreases in NOW accounts of $3.7 million to $61.4 million, non-interest bearing demand account of $2.5 million to $30.8 million, and money market accounts of $4.3 million to $110.4 million. Included in the certificates of deposit at December 31, 2011 was an increase in brokered certificates of $5.4 million to $126.3 million. The increase in brokered certificates was the result of the Company s decision to replace maturing FHLBank Pittsburgh borrowings with lower priced brokered certificates of deposit.

Borrowed Funds. Borrowed funds decreased by $5.0 million, or 1.7%, to $283.4 million at December 31, 2011, from $288.4 million at September 30, 2011. The decrease in borrowed funds was primarily due to maturities of FHLBank Pittsburgh borrowings.

Stockholders Equity. Stockholders equity decreased by $162,000, or 0.1%, to $161.5 million at December 31, 2011 from $161.7 million at September 30, 2011. This decrease was primarily the result of a decline in accumulated other comprehensive income of $1.2 million to $(571,000) at December 31, 2011 from $586,000 at September 30, 2011. This decrease was partially offset by net income of $886,000.

Average Balance Sheets for the Three Months Ended December 31, 2011 and 2010

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances, the yields set forth below include the effect of deferred fees and discounts and premiums that are amortized or accreted to interest income.

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	For the Three Months Ended December 31					
	2011			2010		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(dollars in thousands)					
Interest-earning assets:						
Loans (1)	$ 748,215	$ 9,341	4.95%	$ 739,735	$ 9,844	5.28%
Investment securities						
Taxable (2)	36,771	232	2.50%	50,509	208	1.63%
Exempt from federal income tax (2) (3)	7,743	48	3.80%	6,840	78	6.85%
Total investment securities	44,514	280	2.73%	57,349	286	2.26%
Mortgage-backed securities	206,380	1,406	2.70%	202,637	1,714	3.36%
Federal Home Loan Bank stock	16,283		0.00%	20,002		0.00%
Other	21,783	2	0.04%	1,609		0.00%
Total interest-earning assets	1,037,175	11,029	4.23%	1,021,332	11,844	4.62%
Allowance for loan losses	(8,257)			(7,628)		
Noninterest-earning assets	62,838			54,552		
Total assets	$ 1,091,756			$ 1,068,256		
Interest-bearing liabilities:						
NOW accounts	$ 58,932	4	0.03%	$ 58,185	6	0.04%
Money market accounts	112,827	80	0.28%	117,685	166	0.56%
Savings and club accounts	70,968	24	0.13%	66,504	42	0.25%
Certificates of deposit	353,897	1,803	2.02%	284,905	1,482	2.06%
Borrowed funds	290,416	2,410	3.29%	330,377	3,018	3.62%
Total interest-bearing liabilities	$ 887,040	$ 4,321	1.93%	$ 857,656	$ 4,714	2.18%
Non-interest bearing NOW accounts	32,242			29,230		
Noninterest-bearing liabilities	10,594			10,162		
Total liabilities	929,876			897,048		
Equity	161,880			171,208		
Total liabilities and equity	$ 1,091,756			$ 1,068,256		
Net interest income		$ 6,708			$ 7,130	
Interest rate spread			2.30%			2.44%
Net interest-earning assets	$ 150,135			$ 163,676		
Net interest margin (4)			2.57%			2.77%
Average interest-earning assets to average interest-bearing liabilities		116.93%			119.08%	

(1) Non-accruing loans are included in the outstanding loan balances.
(2) Held to maturity securities are reported at amortized cost. Available for sale securities are reported at fair value.
(3) Yields on tax exempt securities have been calculated on a fully tax equivalent basis assuming a tax rate of 34%.
(4) Represents the difference between interest earned and interest paid, divided by average total interest earning assets.

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Comparison of Operating Results for the Three Months Ended December 31, 2011 and December 31, 2010

Net Income. Net income decreased $126,000, or 12.5%, to $886,000 for the three months ended December 31, 2011 compared to net income of $1.0 million for the comparable period in 2010. Net income for the three months ending December 31, 2011 decreased primarily due to a decrease in net interest income offset, in part, by an increase in noninterest income.

Net Interest Income. Net interest income decreased $422,000 or 5.9%, to $6.7 million for the three months ended December 31, 2011 from $7.1 million for the comparable period in 2010. The decrease was primarily attributable to a decrease in the Company s interest rate spread to 2.30% for the three months ended December 31, 2011, from 2.44% for the comparable period in 2010, and a decrease of $13.5 million in the Company s average net earnings assets.

Interest Income. Interest income decreased $815,000 or 6.9%, to $11.0 million for the three months ended December 31, 2011 from $11.8 million for the comparable 2010 period. The decrease resulted primarily from a 39 basis point decrease in average yield on interest earning assets partially offset by a $15.8 million increase in average interest-earning assets. The average yield on interest earning assets was 4.23% for the three months ended December 31, 2011, as compared to 4.62% for the comparable 2010 period as the Company s interest earning assets continued to re-price downward throughout the period. Loans increased on average $8.5 million between the two periods along with increases in the average balance of mortgage backed securities of $3.7 million. In addition, average other investments increased $20.2 million. These increases were offset in part by decreases in the average balances of total investment securities of $12.8 million and average Federal Home Loan Bank stock of $3.7 million. The primary reason for the increase in mortgage backed securities was the partial reinvestment of borrowing proceeds, deposit proceeds and maturing investment securities into these assets. Average FHLBank Pittsburgh stock declined $3.7 million as a result of repurchases by the FHLB of stock. The increase in other interest earning assets was primarily due to an increase in the average balance of cash held at FHLBank Pittsburgh.

Interest Expense. Interest expense decreased $393,000 or 8.3%, to $4.3 million for the three months ended December 31, 2011 from $4.7 million for the comparable 2010 period. The decrease resulted from a 25 basis point decrease in the overall cost of interest bearing liabilities to 1.93% for the three months ended December 31, 2011 from 2.18% for the comparable 2010 period, partially offset by a $29.4 million increase in average interest-bearing liabilities. Average interest bearing deposits increased $69.3 million and average borrowed funds decreased $40.0 million. Average interest bearing deposits increased primarily as a result of a $69.0 million increase in average certificates of deposit. Borrowed funds decreased primarily due to maturities of FHLBank Pittsburgh borrowings. Average certificates of deposit included an increase of $29.1 million in average brokered certificates of deposit. The Company replaced maturing FHLBank Pittsburgh borrowings with brokered certificates because they were a cheaper funding source.

Provision for Loan Losses. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect a borrower s ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are subject to interpretation and revision as more information becomes available or as future events occur. After an evaluation of these factors, management made a provision for loan losses of $500,000 for the three months ended December 31, 2011 as compared to $480,000 for the three months ended December 31, 2010. The allowance for loan losses was $8.4 million, or 1.12% of loans outstanding, at December 31, 2011, compared to $8.2 million, or 1.09% of loans outstanding at September 30, 2010.

Non-interest Income. Non-interest income increased $189,000 or 14.2% to $1.5 million for the three months ended December 31, 2011 from $1.3 million for the comparable period in 2010. The primary reasons for the increase were increases in insurance commissions of $191,000 and bank-owned life insurance income of $61,000 during the 2011 period. The Company s purchase of ESSA Advisory Services during the quarter ended June 30, 2011 is the primary reason for the increase in insurance commission income. The Company s purchase of $7.0 million in bank-owned life insurance during the quarters ended March 31, 2011 and June 30, 2011 was the principle reason for the increase in bank-owned life insurance income for the period.

Non-interest Expense. Non-interest expense increased $24,000, or 0.4%, to $6.7 million for the three months ended December 31, 2011 from $6.6 million for the comparable period in 2010. The primary reasons for the increase were increases in compensation and employee benefits of $56,000, professional fees of $61,000 and amortization of intangible assets of $81,000. These increases were partially offset by declines in advertising of $100,000, loss on foreclosed real estate of $39,000, and other expense of $25,000. Amortization of intangible assets increased due to the purchase of ESSA Advisory Services in the third quarter of 2011. Professional fees increased primarily due to expenses of $149,000 related to the previously announced proposed merger between the Company and First Star Bancorp, Inc.

Income Taxes. Income tax expense decreased $151,000 to $184,000 for the three months ended December 31, 2011 from $335,000 for the comparable 2010 period. The decrease was primarily a result of the decrease in income before taxes of $277,000 for the three months ended December 31, 2011. The effective tax rate was 17.2% for the three months ended December 31, 2011, compared to 24.9% for the 2010 period. The decrease in the effective tax rate was primarily due to the increase in the portion of pre-tax income derived from non-taxable loan and investment income for the three months ended December 31, 2011 compared to the 2010 period.

Non-Performing Assets

The following table provides information with respect to the Bank s non-performing assets at the dates indicated. (Dollars in thousands)

	December 31, 2011	September 30, 2011
Non-performing assets:		
Non-accruing loans	$ 13,760	$ 10,971
Troubled debt restructures	527	529
Total non-performing loans	14,287	11,500
Foreclosed real estate	2,103	2,356
Total non-performing assets	$ 16,390	$ 13,856
Ratio of non-performing loans to total loans	1.90%	1.54%
Ratio of non-performing loans to total assets	1.30%	1.05%
Ratio of non-performing assets to total assets	1.49%	1.26%
Ratio of allowance for loan losses to total loans	1.12%	1.09%

Loans are reviewed on a regular basis and are placed on non-accrual status when they become more than 90 days delinquent. When loans are placed on non-accrual status, unpaid accrued interest is fully reserved, and further income is recognized only to the extent received. Non-performing assets increased $2.5 million to $16.4 million at December 31, 2011 from $13.9 million at September 30, 2011. Non-performing loans increased $2.8 million to $14.3 million at December 31, 2011 from $11.5 million at September 30, 2011. The $13.8 million of non-accruing loans included 55 residential loans with an aggregate outstanding balance of $9.5 million that were past due 90 or more days at December 31, 2011, 25 commercial and commercial real estate loans with aggregate outstanding balances of $3.8 million and 16 consumer loans with aggregate balances of $405,000. Within the residential loan balance, are $1.1 million of loans less than 90 days past due. In the quarter ended December 31, 2011, the Company identified five residential loans which although paying as agreed, have a high probability of default. Foreclosed real estate decreased $253,000 to $2.1 million at December 31, 2011 from $2.4 million at September 30, 2011. Foreclosed real estate consists of 22 residential properties and one commercial building lot.

At December 31, 2011 the principal balance of troubled debt restructures was $12.1 million as compared to $7.0 million at September 30, 2011. Of the $12.1 million of troubled debt restructures at December 31, 2011, $6.3 million are performing loans and $5.8 million are non-accrual loans. An additional $527,000 of performing troubled debt restructures are classified as non-performing assets because they were non-performing assets at the time they were restructured.

Of the 63 loans that comprise our troubled debt restructures at December 31, 2011, no loans were granted a rate concession at a below market interest rate. Three loans with balances totaling $866,000 were granted market rate and terms concessions and 60 loans with balances totaling $11.2 million were granted terms concessions.

As of December 31, 2011, troubled debt restructures were comprised of 28 residential loans totaling $5.4 million, 28 commercial and commercial real estate loans totaling $6.4 million, and seven consumer (Home equity loans, home equity lines and credit, and other) totaling

$307,000.

For the three month period ended December 31, 2011, two loans totaling $405,000 were removed from TDR status. One loan for $327,000 had completed 12 timely payments, and one loan for $78,000 was paid off.

We have modified terms of loans that do not meet the definition of a TDR. The vast majority of such loans were rate modifications of residential first mortgage loans in lieu of refinancing. The non-TDR rate modifications were all performing loans when the rates were reset to current market rates. For the three months ended December 31, 2011, we modified 193 loans ($26.5 million) in this fashion. With regard to commercial loans, including commercial real estate loans, various non-troubled loans were modified, either for the purpose of a rate reduction to reflect current market rates (in lieu of a refinance) or the extension of a loan s maturity date. In total, there were 13 such loans in the three months ended December 31, 2011 with an aggregate balance of approximately $6.5 million.

Liquidity and Capital Resources

We maintain liquid assets at levels we consider adequate to meet both our short-term and long-term liquidity needs. We adjust our liquidity levels to fund deposit outflows, repay our borrowings and to fund loan commitments. We also adjust liquidity as appropriate to meet asset and liability management objectives.

Our primary sources of liquidity are deposits, prepayment and repayment of loans and mortgage-backed securities, maturities of investment securities and other short-term investments, and earnings and funds provided from operations, as well as access to FHLBank advances and other borrowing sources. While scheduled principal repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by market interest rates, economic conditions, and rates offered by our competition. We set the interest rates on our deposits to maintain a desired level of total deposits.

A portion of our liquidity consists of cash and cash equivalents and borrowings, which are a product of our operating, investing and financing activities. At December 31, 2011, $29.1 million of our assets were invested in cash and cash equivalents. Our primary sources of cash are principal repayments on loans, proceeds from the maturities of investment securities, principal repayments of mortgage-backed securities and increases in deposit accounts. Short-term investment securities (maturing in one year or less) totaled $4.2 million at December 31, 2011. As of December 31, 2011, we had $223.4 million in borrowings outstanding from FHLBank Pittsburgh and $60.0 million in borrowings through repurchase agreements with other financial institutions. We have access to additional FHLBank advances of up to approximately $286.3 million.

At December 31, 2011, we had $43.7 million in loan commitments outstanding, which included, in part, $7.6 million in undisbursed construction loans, $23.4 million in unused home equity lines of credit, $4.3 million in commercial lines of credit and $5.6 million to originate primarily multi-family and nonresidential mortgage loans. Certificates of deposit due within one year of December 31, 2011 totaled $123.5 million, or 33.9% of certificates of deposit. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2012. We believe, however, based on past experience, that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered

As reported in the Consolidated Statements of Cash Flows, our cash flows are classified for financial reporting purposes as operating, investing or financing cash flows. Net cash provided by operating activities was $4.0 million and $3.3 million for the three months ended December 31, 2011 and 2010, respectively. These amounts differ from our net income because of a variety of cash receipts and disbursements that did not affect net income for the respective periods. Net cash used in investing activities was $15.8 million and $17.4 million for the three months ended December 31, 2011 and 2010, respectively, principally reflecting our loan and investment security activities. Deposit and borrowing cash flows have comprised most of our financing activities which resulted in net cash (used) provided of $(779,000) and $10.5 million for the three months ended December 31, 2011 and 2010, respectively.

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Critical Accounting Policies

We consider accounting policies that require management to exercise significant judgment or discretion or make significant assumptions that have, or could have, a material impact on the carrying value of certain assets or on income, to be critical accounting policies. We consider the following to be our critical accounting policies:

Allowance for Loan Losses. The allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses which is charged against income. In determining the allowance for loan losses, management makes significant estimates and has identified this policy as one of our most critical. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions utilized and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans and discounted cash flow valuations of properties are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisals and discounted cash flow valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals and discounted cash flow valuations are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. Consideration is given to a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal and external loan reviews and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revision based on changes in economic and real estate market conditions.

The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions and geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general allocations. Actual loan losses may be significantly more than the allowance for loan losses we have established which could have a material negative effect on our financial results.

Other-than-Temporary Investment Security Impairment. Securities are evaluated periodically to determine whether a decline in their value is other-than-temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other-than-temporary. The term other-than-temporary is not intended to indicate that the decline is permanent, but indicates that the prospect for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Deferred Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. We consider the determination of this valuation allowance to be a critical accounting policy because of the need to exercise significant judgment in evaluating the amount and timing of recognition of deferred tax liabilities and assets, including projections of future taxable income. These judgments and estimates are reviewed on a continual basis as regulatory and business factors change. A valuation allowance for deferred tax assets may be required if the amount of taxes recoverable through loss carryback declines, or if we project lower levels of future taxable income. Such a valuation allowance would be established through a charge to income tax expense which would adversely affect our operating results. At December 31, 2011 the Company had a $2.8 million valuation allowance established against its deferred tax asset. The tax deduction generated by the contribution to the Foundation as part of the Company s stock offering exceeded the allowable federal income tax deduction limitations resulting in the establishment of this valuation allowance for the contribution carry forward.

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Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements (as such term is defined in applicable Securities and Exchange Commission rules) that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations

During the first three months of fiscal 2012, the Company s contractual obligations did not change materially from those discussed in the Company s Financial Statements for the year ended September 30, 2011.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. Our assets, consisting primarily of mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits and borrowings. As a result, a principal part of our business strategy is to manage interest rate risk and reduce the exposure of our net interest income to changes in market interest rates. Accordingly, our Board of Directors has approved guidelines for managing the interest rate risk inherent in our assets and liabilities, given our business strategy, operating environment, capital, liquidity and performance objectives. Senior management monitors the level of interest rate risk on a regular basis and the asset/liability committee meets quarterly to review our asset/liability policies and interest rate risk position.

We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. The net proceeds from the Company s stock offering increased our capital and provided management with greater flexibility to manage our interest rate risk. In particular, management used the majority of the capital we received to increase our interest-earning assets. There have been no material changes in our interest rate risk since September 30, 2011.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

There were no significant changes made in the Company s internal controls over financial reporting (as defined by Rule 13a 15(f) under the Securities Exchange Act of 1934) or in other factors that could significantly affect, or are reasonably likely to materially affect, the Company s internal controls over financial reporting during the period covered by this report.

Part II Other Information

Item 1. Legal Proceedings

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company s financial condition or results of operations.

Item 1A. Risk Factors

In addition to the risk factors relating to the Company that were disclosed in response to Item 1A to part I of Form 10-K for the year ended September 30, 2011, the following additional risk factor exists relating to the recently announced execution of a merger agreement by and among the Company and First Star Bancorp, Inc., the holding company to First Star Bank (collectively referred to herein as First Star):

The merger of the Company and First Star and the integration of the companies may be more difficult, costly or time consuming than expected. It is possible that the integration process could result in the loss of key employees or disruption of ongoing business or inconsistencies in standards, controls, procedures and policies

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that adversely affect the Company s ability to maintain relationships with customers and employees or achieve the anticipated benefits of the merger. As with any member of banking institutions, there may also be business disruptions that cause the Company to lose customers or cause customers to withdraw their deposits from the Company s banking subsidiaries. The success of the combined company following the merger may depend in large part on the ability to integrate the two business models and cultures. If we are not able to integrate the Company s and First Star s operations successfully and in a timely manner, the expected benefits of the merger may not be realized.

The Company may fail to realize the cost savings estimated for the merger. The Company estimates that it will achieve cost savings from the merger when the two companies have been fully integrated, while the Company continues to be comfortable with these expectations, it is possible that the estimates of the potential cost savings could turn out to be incorrect. The cost savings estimates also assume the ability to combine the businesses of the company and First Star in a manner that permits those cost savings to be realized. If the estimates turn out to be incorrect or the company is not able to successfully combine the two companies the anticipated cost savings may not be fully realized or realized at all, or may take longer to realize than expected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(1) None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. [Removed and Reserved]

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

The following exhibits are either filed as part of this report or are incorporated herein by reference:

3.1	Certificate of Incorporation of ESSA Bancorp, Inc.*
3.2	Bylaws of ESSA Bancorp, Inc.*
4	Form of Common Stock Certificate of ESSA Bancorp, Inc.*
10.2	Amended and Restated Employment Agreement for Gary S. Olson**
10.3	Amended and Restated Employment Agreement for Robert S. Howes**
10.4	Amended and Restated Employment Agreement for Allan A. Muto**
10.5	Amended and Restated Employment Agreement for Diane K. Reimer**
10.6	Amended and Restated Employment Agreement for V. Gail Warner**
10.7	Supplemental Executive Retirement Plan**
10.8	Endorsement Split Dollar Life Insurance Agreement for Gary S. Olson**
10.9	Endorsement Split Dollar Life Insurance Agreement for Robert S. Howes**
21	Subsidiaries of Registrant*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements tagged as blocks of text and in detail(1)

* Incorporated by reference to the Registration Statement on Form S-1 of ESSA Bancorp, Inc. (file no. 333-139157), originally filed with the Securities and Exchange Commission on December 7, 2006.

** Incorporated by reference to ESSA Bancorp, Inc. s current report on Form 8-K filed with the Securities and Exchange Commission on October 6, 2008.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	ESSA BANCORP, INC.
Date: February 9, 2012	/s/ Gary S. Olson Gary S. Olson President and Chief Executive Officer
Date: February 9, 2012	/s/ Allan A. Muto Allan A. Muto Executive Vice President and Chief Financial Officer