AMERISERV FINANCIAL INC /PA/
Form 10-Q
May 07, 2010

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 **March 31, 2010**

X

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transaction period from ____________ to ____________

Commission File Number **0-11204**

AmeriServ Financial, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania **25-1424278**

(State or other jurisdiction of incorporation (I.R.S. Employer Identification No.)

or organization)

Main & Franklin Streets, P.O. Box 430, Johnstown, PA 15907-0430

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code **(814) 533-5300**

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 filing requirements for the past 90 days.

X Yes

No

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

Yes

No

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

Large accelerated filer **X** Accelerated filer **X** Non-accelerated filer **X** Smaller reporting company **X**

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

X Yes **X** No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding at May 3, 2010

Common Stock, par value $0.01

21,223,942

per share

AmeriServ Financial, Inc.

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Item 1. Financial Statements

AmeriServ Financial, Inc.

CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	March 31, 2010	December 31, 2009
ASSETS		
Cash and due from depository institutions	$ 16,584	$ 20,835
Interest bearing deposits	1,711	1,707
Federal funds sold	850	-
Short-term investments in money market funds	2,105	3,766
Total cash and cash equivalents	21,250	26,308
Investment securities:		
Available for sale	141,866	131,272
Held to maturity (market value $8,623 on March 31, 2010 and $11,996 on December 31, 2009)	8,207	11,611
Loans held for sale	1,319	3,790
Loans	712,226	719,785
Less: Unearned income	616	671
Allowance for loan losses	21,516	19,685
Net loans	690,094	699,429
Premises and equipment, net	9,655	9,229
Accrued income receivable	3,666	3,589
Goodwill	12,950	12,950
Bank owned life insurance	33,943	33,690
Net deferred tax asset	16,099	15,925
Regulatory stock	9,739	9,739
Prepaid federal deposit insurance	4,230	4,538
Other assets	7,799	7,956
TOTAL ASSETS	$ 960,817	$ 970,026
LIABILITIES		
Non-interest bearing deposits	$ 124,559	$ 118,232

Interest bearing deposits	677,642	667,779
Total deposits	802,201	786,011
Short-term borrowings	7,505	25,775
Advances from Federal Home Loan Bank	17,791	25,804
Guaranteed junior subordinated deferrable interest debentures	13,085	13,085
Total borrowed funds	38,381	64,664
Other liabilities	13,842	12,097
TOTAL LIABILITIES	854,424	862,772
SHAREHOLDERS' EQUITY		
Preferred stock, no par value; $1,000 per share liquidation preference; 2,000,000 shares authorized; there were 21,000 shares issued and outstanding for the periods presented	20,678	20,558
Common stock, par value $0.01 per share; 30,000,000 shares authorized; 26,412,561 shares issued and 21,223,942 outstanding on March 31, 2009; 26,410,528 shares issued and 21,221,909 outstanding on December 31, 2009	264	264
Treasury stock at cost, 5,188,619 shares on March 31, 2010 and December 31, 2009	(68,659)	(68,659)
Capital surplus	144,773	144,873
Retained earnings	13,410	14,591
Accumulated other comprehensive loss, net	(4,073)	(4,373)
TOTAL SHAREHOLDERS' EQUITY	106,393	107,254
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 960,817	$ 970,026

See accompanying notes to unaudited consolidated financial statements.

AmeriServ Financial, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

(Unaudited)

	Three months ended	
	March 31, 2010	March 31, 2009
INTEREST INCOME		
Interest and fees on loans	$ 10,020	$ 10,349
Interest bearing deposits	1	1
Short-term investments in money market funds	3	14
Federal funds sold	1	-
Investment securities:		
Available for sale	1,322	1,398
Held to maturity	118	173
Total Interest Income	11,465	11,935
INTEREST EXPENSE		
Deposits	2,927	3,255
Short-term borrowings	9	129
Advances from Federal Home Loan Bank	128	130
Guaranteed junior subordinated deferrable interest	-	-
debentures	280	280
Total Interest Expense	3,344	3,794
NET INTEREST INCOME	8,121	8,141
Provision for loan losses	3,050	1,800
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,071	6,341
NON-INTEREST INCOME		
Trust fees	1,454	1,559

Net realized gains on investment securities	65	101
Net gains on loans held for sale	131	118
Service charges on deposit accounts	572	673
Investment advisory fees	187	137
Bank owned life insurance	254	250
Other income	637	723
Total Non-Interest Income	3,300	3,561
NON-INTEREST EXPENSE		
Salaries and employee benefits	5,199	5,092
Net occupancy expense	736	722
Equipment expense	418	415
Professional fees	1,102	920
Supplies, postage and freight	284	294
Miscellaneous taxes and insurance	354	344
Federal deposit insurance expense	331	32
Amortization of core deposit intangibles	-	108
Other expense	1,340	1,235
Total Non-Interest Expense	9,764	9,162
PRETAX INCOME (LOSS)	(1,393)	740
Income tax expense (benefit)	(475)	207
NET INCOME (LOSS)	(918)	533
Preferred stock dividends	263	259
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$ (1,181)	$ 274
PER COMMON SHARE DATA:		
Basic:		
Net income (loss)	$ (0.06)	$ 0.01
Average number of shares outstanding	21,224	21,137
Diluted:		
Net income (loss)	$ (0.06)	$ 0.01
Average number of shares outstanding	21,224	21,137
Cash dividends declared	$ 0.00	$ 0.00

See accompanying notes to unaudited consolidated financial statements.

AmeriServ Financial, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three months ended March 31, 2010	Three months ended March 31, 2009
OPERATING ACTIVITIES		
Net income (loss)	$ (918)	$ 533
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for loan losses	3,050	1,800
Depreciation expense	366	403
Amortization expense of core deposit intangibles	-	108
Net amortization of investment securities	169	20
Net realized gains on investment securities available for sale	(65)	(101)
Net realized gains on loans held for sale	(131)	(118)
Amortization of deferred loan fees	(98)	(122)
Origination of mortgage loans held for sale	(9,339)	(14,051)
Sales of mortgage loans held for sale	11,941	13,098
Increase in accrued interest income receivable	(77)	(154)
Decrease in accrued interest expense payable	(1,024)	(923)
Earnings on bank owned life insurance	(254)	(250)
Deferred income taxes	(174)	665
Net decrease (increase) in other assets	148	(1,335)
Net decrease in other liabilities	(402)	(467)
Net cash provided by (used in) operating activities	3,192	(894)
INVESTING ACTIVITIES		
Purchases of investment securities - available for sale	(20,165)	(6,777)
Proceeds from sales of investment securities available for sale	1,189	3,433
Proceeds from maturities of investment securities available for sale	11,673	6,741
Proceeds from maturities of investment securities held to maturity	3,398	1,594
Long-term loans originated	(13,006)	(35,366)
Principal collected on long-term loans	19,873	28,916
Loans purchased or participated	(345)	(15,500)
Loans sold or participated	-	3,950
Net increase in other short-term loans	(8)	(591)

Purchases of premises and equipment	(792)	(161)
Net cash provided by (used in) investing activities	1,817	(13,761)
FINANCING ACTIVITIES		
Net increase in deposit accounts	16,459	53,025
Net decrease in other short-term borrowings	(18,270)	(43,420)
Principal borrowings on advances from Federal Home Loan Bank	32,000	-
Principal repayments on advances from Federal Home Loan Bank	(40,013)	(12)
Preferred stock dividends	(263)	(163)
Proceeds from stock purchase plan	20	29
Net cash (used in) provided by financing activities	(10,067)	9,459
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,058)	(5,196)
CASH AND CASH EQUIVALENTS AT JANUARY 1	26,308	35,124
CASH AND CASH EQUIVALENTS AT MARCH 31	$ 21,250	$29,928

See accompanying notes to unaudited consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of AmeriServ Financial, Inc. (the Company) and its wholly-owned subsidiaries, AmeriServ Financial Bank (Bank), AmeriServ Trust and Financial Services Company (Trust Company), and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a state-chartered full service bank with 18 locations in Pennsylvania. The Trust Company offers a complete range of trust and financial services and administers assets valued at $1.4 billion that are not recognized on the Company s balance sheet at March 31, 2010. AmeriServ Life is a captive insurance company that engages in underwriting as a reinsurer of credit life and disability insurance.

In addition, the Parent Company is an administrative group that provides support in such areas as audit, finance, investments, loan review, general services, and marketing. Significant intercompany accounts and transactions have been eliminated in preparing the consolidated financial statements.

2.

Basis of Preparation

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. In the opinion of management, all adjustments consisting only of normal recurring entries considered necessary for a fair presentation have been included. They are not, however, necessarily indicative of the results of consolidated operations for a full-year.

For further information, refer to the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

3.

Accounting Policies

In January 2010, the FASB issued ASU 2010-04, *Accounting for Various Topics Technical Corrections to SEC Paragraphs*. ASU 2010-04 makes technical corrections to existing SEC guidance including the following topics: accounting for subsequent investments, termination of an interest rate swap, issuance of financial statements - subsequent events, use of residential method to value acquired assets other than goodwill, adjustments in assets and liabilities for holding gains and losses, and selections of discount rate used for measuring defined benefit obligation. ASU 2010-04 is effective January 15, 2010. The adoption of this guidance did not have a material impact on the Company s financial position or results of operation or the Company has presented the necessary disclosures in the Note 16 herein.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures, require new disclosures, and includes conforming amendments to guidance on employers disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company s financial statements or the Company has presented the necessary disclosures in the Note 17 herein.

4.

Earnings Per Common Share

Basic earnings per share include only the weighted average common shares outstanding. Diluted earnings per share include the weighted average common shares outstanding and any potentially dilutive common stock equivalent shares in the calculation. Treasury shares are treated as retired for earnings per share purposes. Options and warrants to purchase 1,675,110 common shares, at exercise prices ranging from $1.68 to $6.10, and 1,544,509 common shares, at exercise prices ranging from $2.31 to $6.10, were outstanding as of March 31, 2010 and 2009, respectively, but were not included in the computation of diluted earnings per common share because to do so would be antidilutive. Dividends on preferred shares are deducted from net income in the calculation of earnings per common share.

	Three months ended March 31,	
	2010	2009
	(In thousands, except per share data)	
Numerator:		

Net income (loss)	$ (918)	$ 533
Preferred stock dividends	263	259
Net Income (loss) available to common shareholders	$ (1,181)	$ 274
Denominator:		
Weighted average common shares outstanding (basic)	21,224	21,137
Effect of stock options/warrants	-	-
Weighted average common shares outstanding (diluted)	21,224	21,137
Earnings (loss) per common share:		
Basic	$(0.06)	$0.01
Diluted	(0.06)	0.01

5.

Comprehensive Income (Loss)

For the Company, comprehensive income includes net income and unrealized holding gains and losses from available for sale investment securities and the pension obligation change for the defined benefit plan. The changes in other comprehensive income are reported net of income taxes, as follows (in thousands):

	Three months ended March 31,	
	2010	2009
Net income (loss)	$ (918)	$ 533
Other comprehensive income, before tax:		
Pension obligation change for defined benefit plan	142	117
Income tax effect	(48)	(40)
Reclassification adjustment for gains on available for sale securities included in net income (loss)	(65)	(101)
Income tax effect	22	34
Unrealized holding gains on available for sale securities arising during period	379	1,043
Income tax effect	(130)	(354)
Other comprehensive income	300	699
Comprehensive income (loss)	$ (618)	$ 1,232

6.

Consolidated Statement of Cash Flows

On a consolidated basis, cash and cash equivalents include cash and due from depository institutions, interest-bearing deposits, federal funds sold and short-term investments in money market funds. The Company made $4,000 in income tax payments in the first three months of 2010 as compared to $43,000 for the first three months of 2009. The Company made total interest payments of $4,368,000 in the first three months of 2010 compared to $4,717,000 in the same 2009 period.

7.

Investment Securities

The cost basis and fair values of investment securities are summarized as follows (in thousands):

Investment securities available for sale (AFS):

March 31, 2010	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency	$ 18,942	$ 120	$ (41)	$ 19,021
U.S. Agency mortgage- backed securities	119,769	3,263	(187)	122,845
Total	$138,711	$ 3,383	$ (228)	$ 141,866

Investment securities held to maturity (HTM):

March 31, 2010	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency mortgage- backed securities	$ 7,207	$ 416	$ -	$ 7,623
Other securities	1,000	-	-	1,000
Total	$ 8,207	$ 416	$ -	$ 8,623

Investment securities available for sale (AFS):

December 31, 2009	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency	$ 12,342	$ 26	$ (76)	$ 12,292
U.S. Agency mortgage-backed securities	116,088	3,128	(236)	118,980
Total	$128,430	$ 3,154	$ (312)	$131,272

Investment securities held to maturity (HTM):

December 31, 2009	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$ 3,009	$ 13	$ -	$ 3,022
U.S. Agency mortgage-backed securities	7,602	373	-	7,975
Other securities	1,000	-	(1)	999
Total	$ 11,611	$ 386	$ (1)	$ 11,996

Maintaining investment quality is a primary objective of the Company's investment policy which, subject to certain limited exceptions, prohibits the purchase of any investment security below a Moody's Investor's Service or Standard & Poor's rating of "A." At March 31, 2010 and December 31, 2009, 99.3% and 97.7% of the portfolio was rated "AAA", respectively. None of the portfolio was rated below A or unrated at March 31, 2010. At March 31, 2010, the Company s consolidated investment securities portfolio had a modified duration of approximately 2.5 years. Total proceeds form the sale of AFS securities were $1.2 million in the first quarter of 2010. The gross gains on investment security sales in the first three months of 2010 were $65,000.

The following tables present information concerning investments with unrealized losses as of March 31, 2010 and December 31, 2009 (in thousands):

Investment securities available for sale:

March 31, 2010	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency	$ 7,459	$ (41)	$ -	$ -	$ 7,459	$ (41)
U.S. Agency mortgage-backed securities	20,409	(187)	-	-	20,409	(187)
Total	$ 27,868	$ (228)	$ -	$ -	$ 27,868	$ (228)

Investment securities available for sale:

December 31, 2009	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency	$ 7,424	$ (76)	$ -	$ -	$ 7,424	$ (76)
U.S. Agency mortgage-						

backed securities	17,525	(236)	-	-	17,525	(236)
Total	$ 24,949	$ (312)	$ -	$ -	$ 24,949	$ (312)

Investment securities held to maturity:

December 31, 2009	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Other securities	$ -	$ -	$ 999	$ (1)	$ 999	$ (1)
Total	$ -	$ -	$ 999	$ (1)	$ 999	$ (1)

The unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the fair value of securities will decrease; as market yields fall, the fair value of securities will increase. There are 20 positions that are considered temporarily impaired at March 31, 2010. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information they expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

Contractual maturities of securities at March 31, 2010, are shown below (in thousands). Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties.

Maturity	Available for Sale		Held to Maturity	
	Cost Basis	Fair Value	Cost Basis	Fair Value
0-1 year	$ 4,035	$ 4,080	$ -	$ -
1-5 years	10,942	10,969	1,000	1,000
5-10 years	29,344	30,382	-	-
Over 10 years	94,390	96,435	7,207	7,623
Total	$138,711	$141,866	$ 8,207	$ 8,623

8.

Loans

The loan portfolio of the Company consists of the following (in thousands):

	March 31, 2010	December 31, 2009
Commercial	$ 94,294	$ 96,158
Commercial loans secured by real estate	396,603	396,787
Real estate mortgage	202,122	207,221
Consumer	19,207	19,619
Total loans	712,226	719,785
Less: Unearned income	616	671
Loans, net of unearned income	$ 711,610	$ 719,114

Real estate-construction loans comprised 6.2%, and 6.8% of total loans, net of unearned income, at March 31, 2010 and December 31, 2009, respectively. The Company has no exposure to sub prime mortgage loans in either the loan or investment portfolios.

9.

Allowance for Loan Losses

An analysis of the changes in the allowance for loan losses follows (in thousands, except ratios):

	Three months ended March 31, 2010	2009
Balance at beginning of period	$ 19,685	$ 8,910
Charge-offs:		
Commercial	(39)	(3)
Commercial loans secured by real estate	(1,193)	(37)
Real estate-mortgage	(80)	(26)
Consumer	(84)	(51)
Total charge-offs	(1,396)	(117)
Recoveries:		
Commercial	104	2
Commercial loans secured by real estate	37	5
Real estate-mortgage	2	18
Consumer	34	43
Total recoveries	177	68
Net charge-offs	(1,219)	(49)
Provision for loan losses	3,050	1,800
Balance at end of period	$ 21,516	$ 10,661
As a percent of average loans and loans held for sale, net of unearned income:		
Annualized net charge-offs	0.69%	0.03%
Annualized provision for loan losses	1.72	1.02
Allowance as a percent of loans and loans held for sale, net of unearned income at period end	3.02	1.47

10.

Non-performing Assets

The following table presents information concerning non-performing assets (in thousands, except ratios):

	March 31, 2010	December 31, 2009
Non-accrual loans		
Commercial	$ 3,332	$ 3,375
Commercial loans secured by real estate	14,422	11,716
Real estate-mortgage	1,393	1,639
Consumer	391	386
Total	19,538	17,116
Other real estate owned		
Commercial loans secured by real estate	412	871
Real estate-mortgage	369	350
Consumer	3	-
Total	784	1,221
Total non-performing assets	$20,322	$ 18,337
Total non-performing assets as a percent of loans and loans held for sale, net of unearned income, and other real estate owned	2.85%	2.53%

The following table sets forth, for the periods indicated, (i) the gross interest income that would have been recorded if non-accrual loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination if held for part of the period, (ii) the amount of interest income actually recorded on such loans, and (iii) the net reduction in interest income attributable to such loans (in thousands).

Three months ended

March 31,

	2010	2009
Interest income due in accordance with original terms	$ 244	$ 49
Interest income recorded	(121)	-
Net reduction in interest income	$ 123	$ 49

11.

Federal Home Loan Bank Borrowings

Total Federal Home Loan Bank (FHLB) borrowings and advances consist of the following at March 31, 2010, (in thousands, except percentages):

Type	Maturing	Amount	Weighted Average Rate
Open Repo Plus	Overnight	$ 505	0.67%
Advances	2010	15,000	1.92
	2012	4,000	1.82
	2013	5,000	2.04
	2016 and after	791	6.44
		24,791	2.07
Total FHLB borrowings		$ 25,296	2.04%

Total Federal Home Loan Bank (FHLB) borrowings and advances consisted of the following at December 31, 2009, (in thousands, except percentages):

Type	Maturing	Amount	Weighted Average Rate
Open Repo Plus	Overnight	$ 25,775	0.62%
Advances	2010	22,000	1.67
	2012	3,000	1.97
	2016 and after	804	6.44
		25,804	1.85

Total FHLB borrowings	$ 51,579	1.24%

The rate on Open Repo Plus advances can change daily, while the rate on the advances is fixed until the maturity of the advance.

12.

Preferred Stock

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (initially introduced as the Troubled Asset Relief Program or TARP) was enacted. On October 14, 2008, the U.S. Treasury announced its intention to inject capital into financial institutions under the TARP Capital Purchase Program (the CPP). The CPP is a voluntary program designed to provide capital to healthy, well managed financial institutions in order to increase the availability of credit to businesses and individuals and help stabilize the U.S. financial system.

On December 19, 2008, the Company sold to the U.S. Treasury for an aggregate purchase price of $21 million in cash 21,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series D. In c