

AMERISERV FINANCIAL INC /PA/
Form 8-K
October 17, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report

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

Date of Report (Date of earliest event reported) October 17, 2006

AMERISERV FINANCIAL, Inc.

(exact name of registrant as specified in its charter)

Pennsylvania 0-11204 25-1424278

(State or other (commission (I.R.S. Employer

jurisdiction File Number) Identification No.)

of Incorporation)

Main and Franklin Streets, Johnstown, Pa. 15901

(address or principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 814-533-5300

N/A

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities

Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange

Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the

Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the

Exchange Act (17 CFR 240.13e-4c))

Form 8-K

Item 2.02 Results of operation and financial condition.

AMERISERV FINANCIAL Inc. (the "Registrant") announced third quarter and first nine months results as of September 30, 2006. For a more detailed description of the announcement see the press release attached as Exhibit #99.1.

Exhibits

Exhibit 99.1

Press release dated October 17, 2006, announcing the third quarter and first nine months results as of September 30, 2006.

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 hereunto duly authorized.

AMERISERV FINANCIAL, Inc.

By /s/Jeffrey A. Stopko

Jeffrey A. Stopko

Senior Vice President

& CFO

Date: October 17, 2006

Exhibit 99.1**AMERISERV FINANCIAL REPORTS INCREASED EARNINGS FOR THE THIRD QUARTER AND FIRST NINE MONTHS OF 2006**

JOHNSTOWN, PA AmeriServ Financial, Inc. (NASDAQ: ASRV) reported third quarter 2006 net income of \$643,000 or \$0.03 per diluted share compared to a net loss of \$10.6 million or (\$0.53) per diluted share for the third quarter of 2005. For the first nine months of 2006, the Company reported net income of \$1.8 million or \$0.08 per diluted share compared to a net loss of \$9.4 million or (\$0.47) per diluted share for the first nine months of 2005.

Note that for comparative purposes the 2005 loss resulted from a restructuring that strengthened the Company's balance sheet and reduced its risk profile. The successful completion of a \$10.3 million private placement common stock offering in the third quarter of 2005 provided the Company with the necessary capital to execute this balance sheet restructuring. The following table highlights the Company's financial performance for both the three and nine month periods ended September 30, 2006 and 2005:

| | Third Quarter 2006 | Third Quarter 2005 | Nine Months Ended September 30, 2006 | Nine Months Ended September 30, 2005 |
|----------------------------|-----------------------|-----------------------|---|---|
| Net income (loss) | \$643,000 | (\$10,564,000) | \$1,751,000 | (\$9,361,000) |
| Diluted earnings per share | \$ 0.03 | | \$ 0.08 | |
| | | (\$ 0.53) | | (\$ 0.47) |

At September 30, 2006, ASRV had total assets of \$883 million and stockholders' equity of \$87 million or \$3.92 per share. The Company's asset leverage ratio improved to 10.52% at September 30, 2006, compared to 9.90% at September 30, 2005.

Allan R. Dennison, President and Chief Executive Officer, commented on the third quarter 2006 results, "AmeriServ has now demonstrated 4 consecutive quarters of improving financial performance since the balance sheet restructuring that was completed in the third quarter of 2005. As a result of our focus on traditional community banking, average loans outstanding increased by \$49 million or 9.4% and average deposits grew by \$45 million or 6.5% when the third quarter of 2006 is compared to the third quarter of 2005. This growth, combined with significant reductions in both investment securities and borrowings, has caused improvement in both net interest income and net interest margin for the same period. Finally, ASRV is also benefiting from lower non-interest expenses in 2006 as we began to realize in

the third quarter some of the expense savings resulting from the termination of the regulatory Memorandum of Understanding that occurred earlier this year.

The Company's net interest income in the third quarter of 2006 increased by \$641,000 from the prior year's third quarter and for the first nine months of 2006 increased by \$838,000 when compared to the first nine months of 2005.

This improvement reflects the benefits from an increased net interest margin which more than offset a reduced level of earning assets. Specifically, for the first nine months of 2006 the net interest margin increased by 54 basis points to 3.14% while the level of average earning assets declined by \$125 million or 13.7%. Both of these items reflect the deleverage of high cost debt from the Company's balance sheet which has resulted in lower levels of both borrowed funds and investment securities. Wholesale borrowings averaged only 4.1% of total assets in the first nine months of 2006 compared to 18.5% of total assets in the first nine months of 2005 while investment securities as a percentage of total assets has declined from 39.0% to 25.8% during this same period. The Company's net interest margin also benefited from increased loans in the earning asset mix as total loans outstanding averaged \$558 million in the first nine months of 2006, a 7.3% increase from the same 2005 period. This loan growth was driven by increased commercial loans. Total deposits averaged \$732 million for the first nine months of 2006; a 5.1% increase from the same 2005 period. These higher deposits in 2006 were due to increased deposits from the trust company's operations and increased certificates of deposit as customers have demonstrated a preference for this product due to higher short term interest rates. Overall, the Company has been able to generate increased net interest income from a smaller but stronger balance sheet despite the negative impact resulting from a flat to inverted yield curve in 2006.

As a result of continued sound asset quality, the Company did not record a provision for loan losses in the third quarter of 2006 compared to a \$100,000 provision recorded in the third quarter of 2005. The Company did experience higher net charge-offs in the third quarter of 2006 due entirely to losses incurred on the repossession of equipment related to a loan to a borrower in the coal mining industry. This caused net charge-offs to average loans to total 0.39% in the third quarter of 2006 compared to 0.11% in the third quarter of 2005. For the nine month period ended September 30, 2006, net charge-offs have amounted to \$791,000 or 0.19% of total loans compared to net charge-offs of \$283,000 or 0.07% of total loans for the same nine month period in 2005. As a result of the successful workout of another problem credit and the previously mentioned higher net charge-offs, non-performing assets declined during the first nine months of 2006 from \$4.3 million or 0.78% of total loans at December 31, 2005 to \$3.0 million or 0.51% of total loans at September 30, 2006. The allowance for loan losses provided 279% coverage of non-performing assets at September 30, 2006 compared to 212% coverage at December 31, 2005. The allowance for loan losses as a percentage of total loans amounted to 1.43% at September 30, 2006 compared to 1.66% at December 31, 2005.

The Company's non-interest income in the third quarter of 2006 increased by \$2.6 million from the prior year's third quarter and for the first nine months of 2006 increased by \$2.8 million when compared to the first nine months of 2005. Note that in the third quarter of 2005 the Company incurred a \$2.6 million loss on investment security sales in conjunction with its balance sheet restructuring. There were no investment security losses in 2006. Non-interest income in 2006 did benefit from growth in trust revenues as trust fees increased by \$351,000 or 7.7% for the nine month period due to continued successful new business development efforts in both the union and traditional trust product lines. Over the past year, the fair market value of trust assets has grown by 6.3% to \$1.7 billion at September 30, 2006. Non-interest income in 2006 also benefited from increased revenue from bank owned life insurance due largely to the payment of a death claim in the third quarter of 2006. These positive items were partially offset by fewer gains realized on loan sales into the secondary market due to weaker residential mortgage loan production in 2006. This line item has declined by \$113,000 in the first nine months of 2006. Services charges have also decreased by \$88,000 in 2006 due to fewer overdraft fees.

Total non-interest expense in the third quarter of 2006 decreased by \$13.7 million from the prior year's third quarter and for the first nine months of 2006 declined by \$13.9 million when compared to the first nine months of 2005. In the third quarter of 2005, the Company incurred \$12.3 million in charges related to FHLB prepayment penalties and interest rate hedge termination costs in conjunction with its balance sheet restructuring. There were no such charges in 2006. Excluding these special charges, the Company has still shown meaningful reductions in non-interest expense as result of its ongoing focus on reducing expenses. Expense reductions were experienced in all reported non-interest expense line items with some of the largest year-to-date reductions occurring in professional fees (\$799,000), salaries and benefits (\$208,000), other expenses (\$455,000), equipment expense (\$82,000) and FDIC insurance expense (\$47,000). The termination of the Memorandum of Understanding earlier in 2006 was a key factor causing the Company to begin realizing in the third quarter of 2006 expense savings within professional fees, other expenses, and FDIC insurance. Also, the loss from discontinued operations declined from \$130,000 in the first nine months of 2005 to \$0 in the first nine months of 2006 as the Company completed the exit from its mortgage servicing operation in 2005.

The Company recorded an income tax expense of \$139,000 in the 2006 third quarter and \$439,000 for the first nine months of 2006 which reflects an estimated effective tax rate of approximately 20%. The income tax expense recorded in 2006 compares to a \$5.7 million income tax benefit recorded in the third quarter of 2005 as a result of the sizable pre-tax loss incurred in last year's third quarter.

This news release may contain forward-looking statements that involve risks and uncertainties, as defined in the Private Securities Litigation Reform Act of 1995, including the risks detailed in the Company's Annual Report and Form 10-K to the Securities and Exchange Commission. Actual results may differ materially.

Nasdaq NMS: ASRV

SUPPLEMENTAL FINANCIAL PERFORMANCE DATA

October 17, 2006

(In thousands, except per share and ratio data)

(All quarterly and 2006 data unaudited)

2006

| | 1QTR | 2QTR | 3QTR | YEAR TO DATE |
|----------------------------------|-------|-------|-------|-----------------|
| PERFORMANCE DATA FOR THE PERIOD: | | | | |
| Net income | \$540 | \$568 | \$643 | \$1,751 |

PERFORMANCE PERCENTAGES (annualized):

| | | | | |
|--|-------|--------|-------|--------|
| Return on average assets | 0.25% | 0.26% | 0.29% | 0.27% |
| Return on average equity | 2.59 | 2.71 | 3.00 | 2.77 |
| Net interest margin | 3.20 | 3.16 | 3.06 | 3.14 |
| Net charge-offs as a percentage of average loans | | | | |
| | 0.09 | 0.07 | 0.39 | 0.19 |
| Loan loss provision as a percentage of average loans | | | | |
| | - | (0.04) | - | (0.01) |
| Efficiency ratio | 92.68 | 92.08 | 91.38 | 92.05 |

PER COMMON SHARE:

Net income:

| | | | | |
|---|--------|--------|--------|--------|
| Basic | \$0.02 | \$0.03 | \$0.03 | \$0.08 |
| Average number of common shares outstanding | 22,119 | 22,143 | 22,148 | 22,137 |
| Diluted | 0.02 | 0.03 | 0.03 | 0.08 |
| Average number of common shares outstanding | 22,127 | 22,153 | 22,156 | 22,145 |

2005

| | | | | |
|--|------|------|------|-----------------|
| | 1QTR | 2QTR | 3QTR | YEAR TO DATE |
|--|------|------|------|-----------------|

PERFORMANCE DATA FOR THE PERIOD:

| | | | | |
|-------------------|-------|-------|------------|-----------|
| Net income (loss) | \$833 | \$370 | \$(10,564) | \$(9,361) |
|-------------------|-------|-------|------------|-----------|

PERFORMANCE PERCENTAGES (annualized):

| | | | | |
|--|-------|--------|---------|---------|
| Return on average assets | 0.34% | 0.15% | (4.26)% | (1.26)% |
| Return on average equity | 3.95 | 1.75 | (49.42) | (14.71) |
| Net interest margin | 2.75 | 2.63 | 2.43 | 2.60 |
| Net charge-offs as a percentage of average loans | | | | |
| | 0.05 | 0.06 | 0.11 | 0.07 |
| Loan loss provision as a percentage of average loans | | | | |
| | - | (0.21) | 0.08 | (0.04) |
| Efficiency ratio | 94.42 | 96.81 | 362.60 | 161.70 |

PER COMMON SHARE:

Net income (loss):

| | | | | |
|---|--------|--------|----------|----------|
| Basic | \$0.04 | \$0.02 | \$(0.53) | \$(0.47) |
| Average number of common shares outstanding | 19,721 | 19,726 | 19,785 | 19,744 |
| Diluted | 0.04 | 0.02 | (0.53) | (0.47) |
| Average number of common shares outstanding | 19,760 | 19,765 | 19,785 | 19,744 |

AMERISERV FINANCIAL, INC.

(In thousands, except per share, statistical, and ratio data)

(All quarterly and 2006 data unaudited)

2006

| | 1QTR | 2QTR | 3QTR |
|--|------------|------------|------------|
| PERFORMANCE DATA AT PERIOD END | | | |
| Assets | \$876,393 | \$887,608 | \$882,837 |
| Investment securities | 223,658 | 210,230 | 209,046 |
| Loans | 548,466 | 573,884 | 580,560 |
| Allowance for loan losses | 9,026 | 8,874 | 8,302 |
| Goodwill and core deposit intangibles | 12,031 | 11,815 | 11,599 |
| Deposits | 727,987 | 740,979 | 743,687 |
| FHLB borrowings | 45,223 | 43,031 | 31,949 |
| Stockholders equity | 84,336 | 84,231 | 86,788 |
| Trust assets fair market value (B) | 1,669,525 | 1,679,634 | 1,702,210 |
| Non-performing assets | 4,193 | 4,625 | 2,978 |
| Asset leverage ratio | 10.36% | 10.54% | 10.52% |
| PER COMMON SHARE: | | | |
| Book value (A) | \$3.81 | \$3.80 | \$3.92 |
| Market value | 5.00 | 4.91 | 4.43 |
| Market price to book value | 131.26% | 129.09% | 113.07% |
| STATISTICAL DATA AT PERIOD END: | | | |
| Full-time equivalent employees | 375 | 367 | 364 |
| Branch locations | 22 | 22 | 21 |
| Common shares outstanding | 22,140,172 | 22,145,639 | 22,150,767 |

2005

| | 1QTR | 2QTR | 3QTR | 4QTR |
|---------------------------------------|------------|------------|------------|------------|
| PERFORMANCE DATA AT PERIOD END | | | | |
| Assets | \$996,450 | \$996,786 | \$901,194 | \$880,176 |
| Investment securities | 381,124 | 385,398 | 253,082 | 231,924 |
| Loans | 527,344 | 522,437 | 544,900 | 550,602 |
| Allowance for loan losses | 9,856 | 9,480 | 9,435 | 9,143 |
| Goodwill and core deposit intangibles | 12,896 | 12,680 | 12,464 | 12,247 |
| Deposits | 725,369 | 691,740 | 698,297 | 712,655 |
| FHLB borrowings | 160,388 | 191,904 | 90,437 | 64,171 |
| Stockholders' equity | 83,720 | 86,267 | 85,022 | 84,474 |
| Trust assets - fair market value (B) | 1,465,028 | 1,487,496 | 1,600,968 | 1,606,978 |
| Non-performing assets | 3,819 | 3,334 | 3,323 | 4,316 |
| Asset leverage ratio | 9.77% | 9.92% | 9.90% | 10.24% |
| PER COMMON SHARE: | | | | |
| Book value | \$4.24 | \$4.37 | \$3.85 | \$3.82 |
| Market value | 5.61 | 5.35 | 4.35 | 4.38 |
| Market price to book value | 132.35% | 122.36% | 113.07% | 114.65% |
| STATISTICAL DATA AT PERIOD END: | | | | |
| Full-time equivalent employees | 394 | 383 | 384 | 378 |
| Branch locations | 22 | 22 | 22 | 22 |
| Common shares outstanding | 19,722,884 | 19,729,678 | 22,105,786 | 22,112,273 |

NOTES:

(A) Other comprehensive income had a negative impact of \$0.17 on book value per share at September 30, 2006.

(B) Not recognized on the balance sheet.

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENT OF INCOME

(In thousands)

(All quarterly and 2006 data unaudited)

2006

| | YEAR | | | |
|--|--------------|--------------|--------------|---------------|
| | 1QTR | 2QTR | 3QTR | TO DATE |
| INTEREST INCOME | | | | |
| Interest and fees on loans | \$8,900 | \$9,155 | \$9,677 | \$27,732 |
| Total investment portfolio | 2,279 | 2,259 | 2,218 | 6,756 |
| Total Interest Income | 11,179 | 11,414 | 11,895 | 34,488 |
| INTEREST EXPENSE | | | | |
| Deposits | 4,026 | 4,563 | 5,143 | 13,732 |
| All borrowings | 861 | 660 | 653 | 2,174 |
| Total Interest Expense | 4,887 | 5,223 | 5,796 | 15,906 |
| NET INTEREST INCOME | 6,292 | 6,191 | 6,099 | 18,582 |
| Provision for loan losses | - | (50) | - | (50) |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 6,292 | 6,241 | 6,099 | 18,632 |
| NON-INTEREST INCOME | | | | |
| Trust fees | 1,641 | 1,671 | 1,603 | 4,915 |
| Net realized gains on investment securities available for sale | - | - | - | - |
| Net realized gains on loans held for sale | 23 | 20 | 26 | 69 |
| Service charges on deposit accounts | 627 | 651 | 645 | 1,923 |
| Bank owned life insurance | 256 | 260 | 428 | 944 |
| Other income | 695 | 666 | 545 | 1,906 |
| Total Non-interest Income | 3,242 | 3,268 | 3,247 | 9,757 |
| NON-INTEREST EXPENSE | | | | |
| Salaries and employee benefits | 4,815 | 4,612 | 4,600 | 14,027 |
| Net occupancy expense | 655 | 591 | 573 | 1,819 |
| Equipment expense | 639 | 631 | 529 | 1,799 |
| Professional fees | 795 | 859 | 791 | 2,445 |
| FDIC deposit insurance expense | 73 | 74 | 22 | 169 |
| Amortization of core deposit intangibles | 216 | 216 | 216 | 648 |
| Other expenses | 1,665 | 1,794 | 1,833 | 5,292 |
| Total Non-interest Expense | 8,858 | 8,777 | 8,564 | 26,199 |
| INCOME BEFORE INCOME TAXES | 676 | 732 | 782 | 2,190 |
| Provision for income taxes | 136 | 164 | 139 | 439 |

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| | | | | |
|---|---------|---------|---------|----------|
| NET INCOME | \$540 | \$568 | \$643 | \$1,751 |
| 2005 | | | | |
| | | | | YEAR |
| INTEREST INCOME | 1QTR | 2QTR | 3QTR | TO DATE |
| Interest and fees on loans | \$7,954 | \$8,105 | \$8,200 | \$24,259 |
| Total investment portfolio | 3,737 | 3,607 | 3,273 | 10,617 |
| Total Interest Income | 11,691 | 11,712 | 11,473 | 34,876 |
| INTEREST EXPENSE | | | | |
| Deposits | 2,845 | 3,188 | 3,290 | 9,323 |
| All borrowings | 2,551 | 2,533 | 2,725 | 7,809 |
| Total Interest Expense | 5,396 | 5,721 | 6,015 | 17,132 |
| NET INTEREST INCOME | 6,295 | 5,991 | 5,458 | 17,744 |
| Provision for loan losses | - | (275) | 100 | (175) |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 6,295 | 6,266 | 5,358 | 17,919 |
| NON-INTEREST INCOME | | | | |
| Trust fees | 1,472 | 1,506 | 1,586 | 4,564 |
| Net realized gains (losses) on investment securities available for sale | 78 | - | (2,577) | (2,499) |
| Net realized gains on loans held for sale | 72 | 83 | 27 | 182 |
| Service charges on deposit accounts | 584 | 704 | 723 | 2,011 |
| Bank owned life insurance | 250 | 254 | 256 | 760 |
| Other income | 692 | 633 | 643 | 1,968 |
| Total Non-interest Income | 3,148 | 3,180 | 658 | 6,986 |
| NON-INTEREST EXPENSE | | | | |
| Salaries and employee benefits | 4,751 | 4,680 | 4,804 | 14,235 |
| Net occupancy expense | 668 | 592 | 609 | 1,869 |

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| | | | | |
|---|-------|-------|------------|-----------|
| Equipment expense | 639 | 622 | 620 | 1,881 |
| Professional fees | 823 | 938 | 1,483 | 3,244 |
| FDIC deposit insurance expense | 71 | 69 | 76 | 216 |
| Amortization of core deposit intangibles | 216 | 216 | 216 | 648 |
| Prepayment penalties | - | - | 12,287 | 12,287 |
| Other expenses | 1,775 | 1,789 | 2,183 | 5,747 |
| Total Non-interest Expense | 8,943 | 8,906 | 22,278 | 40,127 |
| | | | | |
| INCOME (LOSS) BEFORE INCOME TAXES | 500 | 540 | (16,262) | (15,222) |
| Provision (benefit) for income taxes | (398) | 96 | (5,689) | (5,991) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | 898 | 444 | (10,573) | (9,231) |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS | (65) | (74) | 9 | (130) |
| NET INCOME (LOSS) | \$833 | \$370 | \$(10,564) | \$(9,361) |

AMERISERV FINANCIAL, INC.

Nasdaq NMS: ASRV

Average Balance Sheet Data (In thousands)

(All quarterly and 2006 data unaudited)

Note: 2005 data appears before 2006.

2005

2006

| | 3QTR | NINE MONTHS | 3QTR | NINE MONTHS |
|---|-----------|----------------|-----------|----------------|
| Interest earning assets: | | | | |
| Loans and loans held for sale, net of unearned income | \$523,159 | \$520,427 | \$572,077 | \$558,176 |

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| | | | | |
|--|-----------|-----------|-----------|-----------|
| Deposits with banks | 862 | 801 | 698 | 669 |
| Total investment securities | 374,316 | 387,195 | 215,759 | 225,066 |
| Total interest earning assets | 898,337 | 908,423 | 788,534 | 783,911 |
| Non-interest earning assets: | | | | |
| Cash and due from banks | 22,128 | 21,520 | 19,146 | 18,975 |
| Premises and equipment | 9,306 | 9,504 | 8,088 | 8,337 |
| Assets of discontinued operations | 1,462 | 1,647 | - | - |
| Other assets | 61,585 | 62,113 | 68,653 | 69,226 |
| Allowance for loan losses | (9,433) | (9,714) | (8,739) | (8,922) |
| Total assets | \$983,385 | \$993,493 | \$875,682 | \$871,527 |
| Interest bearing liabilities: | | | | |
| Interest bearing deposits: | | | | |
| Interest bearing demand | \$55,693 | \$54,513 | \$58,551 | \$57,329 |
| Savings | 96,935 | 98,652 | 80,663 | 84,235 |
| Money market | 153,278 | 153,854 | 169,022 | 171,525 |
| Other time | 286,108 | 283,895 | 330,900 | 313,598 |
| Total interest bearing deposits | 592,014 | 590,914 | 639,136 | 626,687 |
| Borrowings: | | | | |
| Federal funds purchased, securities sold under agreements to repurchase, and other short-term borrowings | | | | |
| | 79,958 | 85,764 | 26,128 | 34,459 |
| Advanced from Federal Home Loan Bank | 92,669 | 98,234 | 962 | 972 |
| Guaranteed junior subordinated deferrable interest debentures | 20,285 | 20,285 | 13,085 | 13,085 |
| Total interest bearing liabilities | 784,926 | 795,197 | 679,311 | 675,203 |
| Non-interest bearing liabilities: | | | | |
| Demand deposits | 106,119 | 105,732 | 104,361 | 105,292 |
| Liabilities of discontinued operations | 356 | 496 | - | - |
| Other liabilities | 7,180 | 6,984 | 7,059 | 6,584 |
| Stockholders equity | 84,804 | 85,084 | 84,951 | 84,448 |
| Total liabilities and stockholders equity | \$983,385 | \$993,493 | \$875,682 | \$871,527 |