Cardiovascular Systems Inc
Form 10-Q
February 01, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2018
Commission File No. 000-52082

CARDIOVASCULAR SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware	No. 41-1698056
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1225 Old Highway 8 Northwest
St. Paul, Minnesota 55112-6416
(Address of principal executive offices, including zip code)
Registrant's telephone number, including area code: (651) 259-1600

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. YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x

The number of shares outstanding of the registrant's common stock as of January 25, 2019 was: Common Stock, $0.001 par value per share, 34,823,048 shares.

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PART I. — FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Cardiovascular Systems, Inc.
Consolidated Balance Sheets
(Dollars in thousands, except per share and share amounts)
(Unaudited)

	December 31, 2018	June 30, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 118,772	$ 116,260
Accounts receivable, net	29,906	31,225
Inventories	19,679	16,605
Marketable securities	434	544
Prepaid expenses and other current assets	1,944	2,977
Total current assets	170,735	167,611
Property and equipment, net	28,230	27,744
Patents, net	5,307	5,231
Other assets	2,915	2,766
Total assets	$ 207,187	$ 203,352
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 12,998	$ 10,441
Accrued expenses	24,472	25,776
Deferred revenue	1,519	1,243
Total current liabilities	38,989	37,460
Long-term liabilities		
Financing obligation	21,025	21,064
Deferred revenue	7,700	8,946
Other liabilities	875	1,412
Total liabilities	68,589	68,882
Commitments and contingencies (see Note 7)		
Common stock, $0.001 par value; authorized 100,000,000 common shares; issued and outstanding 34,824,366 at December 31, 2018 and 33,360,032 at June 30, 2018, respectively	34	33
Additional paid in capital	469,827	461,927
Accumulated other comprehensive income	—	101
Accumulated deficit	(331,263)	(327,591)
Total stockholders' equity	138,598	134,470
Total liabilities and stockholders' equity	$ 207,187	$ 203,352

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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Cardiovascular Systems, Inc.
Consolidated Statements of Operations
(Dollars in thousands, except per share and share amounts)
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net revenues	$60,206	$52,628	$116,472	$102,304
Cost of goods sold	11,477	9,499	22,052	18,701
Gross profit	48,729	43,129	94,420	83,603
Expenses:				
Selling, general and administrative	41,107	37,008	82,349	72,926
Research and development	7,238	6,396	14,655	12,704
Total expenses	48,345	43,404	97,004	85,630
Income (loss) from operations	384	(275)	(2,584)	(2,027)
Other (income) expense, net:				
Interest expense	422	430	846	862
Interest income and other, net	(563)	(325)	(1,100)	(565)
Total other (income) expense, net	(141)	105	(254)	297
Income (loss) before income taxes	525	(380)	(2,330)	(2,324)
Provision for income taxes	33	33	66	66
Net income (loss)	$492	$(413)	$(2,396)	$(2,390)
Basic earnings per share	$0.01	$(0.01)	$(0.07)	$(0.07)
Diluted earnings per share	$0.01	$(0.01)	$(0.07)	$(0.07)
Basic weighted average shares outstanding	33,507,843	33,112,138	33,466,454	33,040,425
Diluted weighted average shares outstanding	34,120,639	33,112,138	33,466,454	33,040,425

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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Cardiovascular Systems, Inc.
Consolidated Statements of Comprehensive Income (Loss)
(Dollars in thousands)
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net income (loss)	$492	$(413)	$(2,396)	$(2,390)
Other comprehensive income:				
Unrealized gain on available for sale securities	—	16	—	28
Adjustment for net gain realized and included in other income, net	—	(8)	—	(16)
Total change in unrealized gain on available for sale securities	—	8	—	12
Comprehensive income (loss)	$492	$(405)	$(2,396)	$(2,378)

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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Cardiovascular Systems, Inc.
Consolidated Statements of Changes in Stockholders' Equity
(Dollars in thousands, except per share amounts)
(Unaudited)

	Common Stock	Additional Paid In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balances at June 30, 2017	$ 33	$ 447,559	$ 100	$ (329,303)	$ 118,389
Stock-based compensation related to restricted stock awards, net	—	9,546	—	—	9,546
Exercise of stock options at $7.90-$12.15 per share	—	514	—	—	514
Employee stock purchase plan activity	—	4,308	—	—	4,308
Unrealized gain on marketable securities	—	—	35	—	35
Net gain reclassified from accumulated other comprehensive income	—	—	(34)	—	(34)
Net income	—	—	—	1,712	1,712
Balances at June 30, 2018	$ 33	$ 461,927	$ 101	$ (327,591)	$ 134,470
Impact from adoption of ASU 2016-01 (See Note 5)	—	—	(101)	101	—
Stock-based compensation related to restricted stock awards, net	1	5,603	—	—	5,604
Shares withheld for payroll taxes	—	—	—	(1,377)	(1,377)
Employee stock purchase plan activity	—	2,101	—	—	2,101
Exercise of stock options at $8.75 per share	—	196	—	—	196
Net loss	—	—	—	(2,396)	(2,396)
Balances at December 31, 2018	$ 34	$ 469,827	$ —	$ (331,263)	$ 138,598

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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Cardiovascular Systems, Inc.
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Six Months Ended December 31,	
	2018	2017
Cash flows from operating activities		
Net loss	$(2,396)	$(2,390)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation of property and equipment	1,577	1,988
Amortization of patents	108	102
Write-off of patent costs	300	26
Provision for (recovery of) doubtful accounts (including note receivable)	100	(93)
Stock-based compensation	5,926	5,740
Changes in assets and liabilities		
Accounts receivable	1,219	561
Inventories	(3,074)	(504)
Prepaid expenses and other assets	1,125	2,792
Accounts payable	1,479	(608)
Accrued expenses and other liabilities	(1,868)	(8,439)
Deferred revenue	(970)	—
Net cash provided by (used in) operating activities	3,526	(825)
Cash flows from investing activities		
Purchases of property and equipment	(994)	(1,269)
Proceeds from convertible note receivable	—	143
Sales of marketable securities	97	96
Costs incurred in connection with patents	(475)	(622)
Net cash used in investing activities	(1,372)	(1,652)
Cash flows from financing activities		
Proceeds from employee stock purchase plan	1,551	1,385
Payment of employee taxes related to vested restricted stock	(1,377)	—
Exercise of stock options	196	513
Other	(12)	12
Net cash provided by financing activities	358	1,910
Net change in cash and cash equivalents	2,512	(567)
Cash and cash equivalents		
Beginning of period	116,260	107,912
End of period	$118,772	$107,345

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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CARDIOVASCULAR SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(For the Six Months Ended December 31, 2018 and 2017)
(Dollars in thousands, except per share and share amounts)
(Unaudited)

1. Basis of Presentation

Cardiovascular Systems, Inc. (the “Company”), based in St. Paul, Minnesota, is a medical device company focused on developing and commercializing innovative solutions for treating vascular and coronary disease. The Company’s Orbital Atherectomy Systems (“OAS”) treat calcified and fibrotic plaque in arterial vessels throughout the leg and heart in a few minutes of treatment time, and address many of the limitations associated with existing surgical, catheter and pharmacological treatment alternatives.

The Company prepared the unaudited interim consolidated financial statements and related unaudited financial information in the footnotes in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial statements. The year-end consolidated balance sheet was derived from the Company’s audited consolidated financial statements, but does not include all disclosures as required by GAAP. These interim consolidated financial statements reflect all adjustments consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair statement of the Company’s consolidated financial position, the results of its operations, its changes in stockholders’ equity, and its cash flows for the interim periods. These interim consolidated financial statements should be read in conjunction with the consolidated annual financial statements and the notes thereto included in the Annual Report on Form 10-K filed by the Company with the SEC on August 23, 2018. The nature of the Company’s business is such that the results of any interim period may not be indicative of the results to be expected for the entire year.

The preparation of the Company’s consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, “Leases.” The guidance requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, and should be applied using a modified retrospective approach. The guidance is effective for the Company on July 1, 2019.

The Company will elect the prospective transition method with the effects of adoption recognized as a cumulative effect adjustment to the opening balance of retained earnings in the Company's fiscal 2020 financial statements, with no restatement of comparative periods. The Company will also elect the package of three practical expedients permitted under the transition guidance within the new standard, which among other things, allows the Company to carryforward the historical lease classification.

The Company is currently assessing the impact of adopting this guidance on its consolidated financial statements and related disclosures. The Company expects to record right of use assets and lease liabilities, which may be material, on its consolidated balance sheet upon adoption of this standard and is still assessing the impact to its results of operations and cash flows.

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2. Selected Consolidated Financial Statement Information

Accounts Receivable, Net

Accounts receivable consists of the following:

	December 31, 2018	June 30, 2018
Accounts receivable	$ 30,642	$ 32,025
Less: Allowance for doubtful accounts	(736)	(800)
Accounts receivable, net	$ 29,906	$ 31,225

Inventories

Inventories consist of the following:

	December 31, 2018	June 30, 2018
Raw materials	$ 6,578	$ 6,820
Work in process	1,160	1,315
Finished goods	11,941	8,470
Inventories	$ 19,679	$ 16,605

Property and Equipment, Net

Property and equipment consists of the following:

	December 31, 2018	June 30, 2018
Land	$ 500	$ 500
Building	22,420	22,420
Equipment	16,879	16,510
Furniture	2,724	2,709
Leasehold improvements	540	438
Construction in progress	2,666	1,110
	45,729	43,687
Less: Accumulated depreciation	(17,499)	(15,943)
Property and equipment, net	$ 28,230	$ 27,744

Accrued Expenses

Accrued expenses consist of the following:

	December 31, 2018	June 30, 2018
Salaries and bonus	$ 6,703	$ 6,624
Commissions	5,896	7,234
Accrued vacation	4,015	3,557
Accrued excise, sales and other taxes	3,555	3,522

Legal settlement	1,395	1,847
Clinical studies	1,145	1,422
Other accrued expenses	1,763	1,570
Accrued expenses	$ 24,472	$ 25,776

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3. Revenue

Effective July 1, 2018 the Company adopted Accounting Standards Codification (“ASC”) Topic 606 - Revenue from Contracts with Customers using the modified retrospective adoption method. Adoption did not have a material impact on the Company’s financial statements.
The Company sells its peripheral and coronary products to customers through a direct sales force in the United States and through distributors internationally and has no material concentration of credit risk or significant payment terms extended to customers and, therefore, the Company does not adjust the promised amount of consideration for the effects of a significant financing component. Sales, use, value-added, and other excise taxes are not recognized in revenue. The Company has elected to present revenue net of sales taxes and other similar taxes.
The following table disaggregates the Company’s net revenues by product category and geography for the following periods:

	Three Months Ended December 31,		Six Months Ended December 31,	
Product Category	2018	2017	2018	2017
Peripheral	$44,236	$39,187	$85,468	$77,342
Coronary	15,970	13,441	31,004	24,962
Total net revenues	$60,206	$52,628	$116,472	$102,304
Geography				
United States	$58,596	$52,628	$113,520	$102,304
International	1,610	—	2,952	—
Total net revenues	$60,206	$52,628	$116,472	$102,304

Performance Obligations
The majority of the Company’s revenues are from customer arrangements containing a single performance obligation to transfer peripheral and coronary products, and thus revenue is recognized at a point in time when control is transferred. This generally occurs upon shipment or upon delivery to the customer site, based on the contract terms. Shipping and handling activities are considered to be fulfillment activities and are not considered to be a separate performance obligation. The Company does not assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer. The Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. The Company did not recognize any material revenue in the current reporting period for performance obligations that were fully satisfied in previous periods.

Significant Judgments

The Company has an exclusive distribution agreement with Medikit to sell its coronary and peripheral OAS in Japan. To secure exclusive distribution rights, Medikit made an upfront payment of $10,000 to the Company, which is partially refundable based on the occurrence of certain events during the term of the agreement. The Company has classified the payment as current or long-term based on its expectation of when revenue will be recognized and this expectation is re-evaluated on a quarterly basis. Medikit also provides advance payments for orders under the terms of the agreement, and, therefore, deferred revenue is recorded until products are accepted by Medikit. Revenue of $398 was recognized in the six months ended December 31, 2018 that was deferred as of June 30, 2018.
Revenue is recognized at the transaction price to which the Company expects to be entitled. The Company offers customers certain volume-based rebates, discounts, and incentives. Estimates of variable consideration from these items are taken into account using the most-likely amount method based on contractual provisions, the Company’s

historical experience, and forecasted customer buying patterns. These items are recognized as a reduction to revenue in the period the revenue is recognized and recorded as a liability. As of December 31, 2018 and June 30, 2018, the Company had a liability of $1,803 and $1,398, respectively, related to these items and recorded within accounts payable on the consolidated balance sheet.

Return and warranty obligations vary by the specific terms of agreements with customers. The Company generally does not provide customers with a right of return. The Company has a limited warranty provision for goods that are nonconforming or defective at the time of shipment, which is estimated based on historical experience.

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Contract Costs

Commissions are earned by the Company’s direct sales force based on sales of the Company’s OAS devices and other products. The Company applies the practical expedient and recognizes commissions as an expense when incurred because the amortization period of the asset that the Company would have otherwise recognized is one year or less.

4. Debt

Revolving Credit Facility

In March 2017, the Company entered into a Loan and Security Agreement (the “Loan Agreement”) with Silicon Valley Bank (“SVB”). The Loan Agreement provides for a senior, secured revolving credit facility (the “Revolver”) of $40,000 (the “Maximum Dollar Amount”).

Advances under the Revolver may be made from time to time up to the Maximum Dollar Amount, subject to certain borrowing limitations. The Revolver has a maturity date of March 31, 2020 and bears interest at a floating per annum rate equal to the Wall Street Journal prime rate, less 0.25%. Interest on borrowings is due monthly and the principal balance is due at maturity. Borrowings up to $10,000 are available on a non-formula basis. Borrowings above $10,000 are based on (i) 85% of eligible domestic accounts receivable, and (ii) the lesser of 50% of eligible inventory or $5,000, subject to adjustment as defined in the Loan Agreement. Upon the Revolver’s maturity, any outstanding principal balance, unpaid accrued interest, and all other obligations under the Revolver will be due and payable. The Company will incur a fee equal to 1% of the Maximum Dollar Amount upon termination of the Loan Agreement or the Revolver for any reason prior to the maturity date, unless refinanced with SVB.

The Company’s obligations under the Loan Agreement are secured by certain of the Company’s assets, including, among other things, accounts receivable, deposit accounts, inventory, equipment, general intangibles and records pertaining to the foregoing. The collateral does not include the Company’s intellectual property, but the Company has agreed not to encumber its intellectual property without the consent of SVB. The Loan Agreement contains customary covenants limiting the Company’s ability to, among other things, incur debt or liens, make certain investments and loans, enter into transactions with affiliates, undergo certain fundamental changes, dispose of assets, or change the nature of its business. In addition, the Loan Agreement contains financial covenants requiring the Company to maintain, at all times when any amounts are outstanding under the Revolver, either (i) minimum unrestricted cash at SVB and unused availability on the Revolver of at least $10,000 or (ii) minimum trailing three-month Adjusted EBITDA of $1,000. If the Company does not comply with the various covenants under the Loan Agreement, the interest rate on outstanding amounts will increase by 5% and SVB may, subject to various customary cure rights, decline to provide additional advances under the Revolver, require the immediate payment of all amounts outstanding under the Revolver, and foreclose on all collateral.

Under the Loan Agreement, the Company paid SVB a non-refundable commitment fee of $80, which will be amortized to interest expense over the term of the Loan Agreement. The Company is required to pay a fee equal to 0.35% per annum on the unused portion of the Revolver, payable quarterly in arrears. The Company is not obligated to draw any funds under the Revolver and has not done so under the Revolver since entering into the Loan Agreement. No amounts are outstanding as of December 31, 2018.

Financing Obligation

In March 2017, in connection with the sale of the Company’s headquarters facility in St. Paul, Minnesota (the “Facility”), the Company entered into a Lease Agreement to lease the Facility. The Lease Agreement has an initial term of fifteen years, with four consecutive renewal options of five years each at the Company’s option, with a base annual rent in the first year of $1,638 and annual escalations of 3% thereafter. Rent during subsequent renewal terms will be at the then

fair market rental rate. As the lease terms resulted in a capital lease classification, the Company accounted for the sale and leaseback of the Facility as a financing transaction where the assets remain on the Company's balance sheet and a financing obligation was recorded for $20,944. As lease payments are made, they will be allocated between interest expense and a reduction of the financing obligation, resulting in a value of the financing obligation that is equivalent to the net book value of the assets at the end of the lease term. The effective interest rate is 7.89%. At the end of the lease (including any renewal option terms), the Company will remove the assets and financing obligation from its balance sheet.

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Payments under the initial term of the Lease Agreement as of December 31, 2018 are as follows:

Six months ending June 30, 2019	$856
Fiscal 2020	1,750
Fiscal 2021	1,803
Fiscal 2022	1,857
Fiscal 2023	1,913
Thereafter	19,375
	$27,554

5. Investments

The following table provides information by level for the Company's marketable securities that were measured at fair value on a recurring basis:

		Fair Value Measurements as of December 31, 2018 Using Inputs Considered as		
	Fair Value	Level 1	Level 2	Level 3
Mutual funds	$ 434	$ 129	$ 305	$ —
Total short-term investments	$ 434	$ 129	$ 305	$ —

		Fair Value Measurements as of June 30, 2018 Using Inputs Considered as		
	Fair Value	Level 1	Level 2	Level 3
Mutual funds	$ 544	$ 199	$ 345	$ —
Total short-term investments	$ 544	$ 199	$ 345	$ —

Effective July 1, 2018 the Company adopted the provisions of ASU 2016-01. Unrealized gains and losses of marketable securities previously recognized in other comprehensive income will now be recognized in net income as a component of other income. Upon adoption, the Company recorded a cumulative-effect reclassification adjustment of $101 from accumulated other comprehensive income to the opening balance of retained earnings as of July 1, 2018.

During the three and six months ended December 31, 2018 and 2017, there were no purchases of marketable securities. There was $46 and $97 of marketable securities that were sold during the three and six months ended December 31, 2018, respectively. There was $49 and $96 of marketable securities that were sold during the three and six months ended December 31, 2017, respectively.

The Company's marketable securities classified within Level 1 are valued using real-time quotes for transactions in active exchange markets. Marketable securities within Level 2 are valued using readily available pricing sources. There were no transfers of assets between Level 1 and Level 2 of the fair value measurement hierarchy during the six months ended December 31, 2018. Any transfers between levels would be recognized on the date of the event or when a change in circumstances causes a transfer.

The Company holds an equity investment that does not have a readily determined fair value. The Company has elected to measure this investment at cost minus impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Impairment is reviewed each reporting period by performing a qualitative assessment considering impairment indicators to evaluate whether the investment is impaired. As of December 31, 2018 and June 30, 2018, the carrying value of the investment was $2,538. During the six months ended December 31, 2018, no impairment indicators were noted. The investment is recorded within other long term assets on the consolidated balance sheet. The Company is committed to purchasing additional shares of this investment for an estimated $3,055, which is expected to occur in the Company's fiscal third quarter.

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6. Stock Options and Restricted Stock Awards

On November 15, 2017, the Company’s stockholders approved the 2017 Equity Incentive Plan (the “2017 Plan”), for the purpose of granting equity awards to employees, directors and consultants. The 2017 Plan replaced the 2014 Equity Incentive Plan (the “2014 Plan”), and no further equity awards may be granted under the 2014 Plan or the 2007 Equity Incentive Plan (the “2007 Plan”) (the 2017 Plan, 2014 Plan and the 2007 Plan are collectively referred to as the “Plans”).

Equity awards classified as restricted stock and performance-based restricted stock are treated as issued shares when granted; however, these shares are not included in the computation of basic weighted average shares outstanding. When shares vest, unless the holder elects to pay the payroll tax liability in cash or through a sale of shares, the Company withholds the appropriate amount of shares to settle the payroll tax liability, on behalf of the individual receiving the shares, as an adjustment to accumulated deficit.

Stock Options

All options granted under the Plans become exercisable over periods established at the date of grant. The option exercise price is generally not less than the estimated fair market value of the Company’s common stock at the date of grant, as determined by the Company’s management and Board of Directors. An employee’s vested options must be exercised at or within 90 days of termination to avoid forfeiture.

Stock option activity for the six months ended December 31, 2018 is as follows:

	Number of Options[a]	Weighted Average Exercise Price
Options outstanding at June 30, 2018	22,321	$ 8.75
Options exercised	(22,321)	$ 8.75
Options outstanding at December 31, 2018	—	$ —

(a) Includes the effect of options granted, exercised, forfeited or expired from the 2007 Plan.

Restricted Stock

The value of each restricted stock award is equal to the fair market value of the Company’s common stock at the date of grant. Vesting of time-based restricted stock awards ranges from one to three years. The estimated fair value of restricted stock awards, including the effect of estimated forfeitures, is recognized on a straight-line basis over the restricted stock’s vesting period.

Restricted stock award activity for the six months ended December 31, 2018 is as follows:

	Number of Shares	Weighted Average Fair Value
Outstanding at June 30, 2018	455,216	$ 24.77
Granted	232,347	$ 35.78
Forfeited	(13,566)	$ 26.94
Vested	(179,416)	$ 24.13
Outstanding at December 31, 2018	494,581	$ 30.12

Performance-Based Restricted Stock

The Company also grants performance-based restricted stock awards to certain executives and other management. In August 2018, the Company granted an aggregate maximum of 210,020 shares that vest based on the Company's total shareholder return relative to total shareholder return of the Company's peer group (a market condition), as measured by the closing prices of the stock of the Company and the peer group members for the 90 trading days preceding July 1, 2018 compared to the closing prices of the stock of the Company and the peer group members for the 90 trading days preceding July 1, 2021. Vesting of these awards will be determined on the date that the Company's Annual Report on Form 10-K for the fiscal year ending June 30, 2021 is filed.

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To calculate the estimated fair value of these restricted stock awards with market conditions, the Company uses a Monte Carlo simulation, which uses the expected average stock prices to estimate the expected number of shares that will vest. The Monte Carlo simulation resulted in an aggregate fair value of approximately $4,734, which the Company will recognize as expense using the straight-line method over the period that the awards are expected to vest. Stock-based compensation expense related to an award with a market condition will be recognized regardless of whether the market condition is satisfied, provided that the requisite service has been provided.

Performance-based restricted stock awards granted in fiscal 2017 and 2018 that are outstanding vest based on the Company’s total shareholder return relative to total shareholder return of the Company’s peer group (a market condition), as measured by the closing prices of the stock of the Company and the peer group members for the 90 trading days preceding July 1, 2016 and July 1, 2017, respectively, compared to the closing prices of the stock of the Company and the peer group members for the 90 trading days preceding July 1, 2019 and July 1, 2020, respectively.

Performance-based restricted stock award activity for the six months ended December 31, 2018 is as follows:

	Number of Shares	Weighted Average Fair Value
Outstanding at June 30, 2018	531,178	$ 12.69
Granted	210,020	$ 22.54
Forfeited	(1,101)	$ 17.65
Outstanding at December 31, 2018	740,097	$ 15.48

7. Commitment and Contingencies

Operating Leases

The Company leases manufacturing space and equipment under lease agreements that expire at various dates through March 2020. Rental expenses were $139 and $177 for the three months ended December 31, 2018 and 2017, respectively, and $278 and $339 for the six months ended December 31, 2018 and 2017, respectively.

Future minimum lease payments under the agreements as of December 31, 2018 are as follows:

Six months ending June 30, 2019	$255
Fiscal 2020	392
Fiscal 2021	36
Fiscal 2022	8
Fiscal 2023	3
	$694

Other Matters

In the ordinary conduct of business, the Company is subject to various lawsuits and claims covering a wide range of matters including, but not limited to, employment claims and commercial disputes. While the outcome of these matters is uncertain, the Company does not believe there are any significant matters as of December 31, 2018 that are probable or estimable, for which the outcome could have a material adverse impact on its consolidated balance sheets or statements of operations.

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8. Earnings Per Share

The following table presents a reconciliation of the numerators and denominators used in the basic and diluted earnings per common share computations (in thousands except share and per share amounts):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Numerator				
Net income (loss)	$492	$ (413)	$(2,396)	$ (2,390)
Income allocated to participating securities	(3)	—	—	—
Net income (loss) available to common stockholders	$489	$ (413)	$(2,396)	$ (2,390)
Denominator				
Weighted average common shares outstanding – basic	33,507,843	33,112,138	33,466,454	33,040,425
Effect of dilutive stock options[1]	—	—	—	—
Effect of dilutive restricted stock units[2]	327,662	—	—	—
Effect of performance-based restricted stock awards[3]	285,134	—	—	—
Weighted average common shares outstanding – diluted	34,120,639	33,112,138	33,466,454	33,040,425
Earnings per common share – basic	$0.01	$ (0.01)	$(0.07)	$ (0.07)
Earnings per common share – diluted	$0.01	$ (0.01)	$(0.07)	$ (0.07)

(1) At December 31, 2018 and 2017, 0 and 22,321 stock options, respectively, were outstanding. The effect of the shares that would be issued upon exercise of these options has been excluded from the calculation of diluted loss per share for the six months ended December 31, 2018, and the three and six months ended December 31, 2017, because those shares are anti-dilutive.

(2) At December 31, 2018 and 2017, 354,176 and 335,869 additional shares of common stock, respectively, were issuable upon the settlement of outstanding restricted stock units. The effect of the shares that would be issued upon settlement of these restricted stock units has been excluded from the calculation of diluted loss per share for the six months ended December 31, 2018, and the three and six months ended December 31, 2017, because those shares are anti-dilutive.

(3) At December 31, 2018 and 2017, 740,097 and 585,832 performance-based restricted stock awards, respectively, were outstanding. The effect of the potential vesting of these awards has been excluded from the calculation of diluted loss per share for the six months ended December 31, 2018, and the three and six months ended December 31, 2017, because those shares are anti-dilutive.

Unvested time-based restricted stock awards that contain nonforfeitable rights to dividends are participating securities and included in the computation of earnings per share pursuant to the two-class method. Under this method, earnings attributable to the Company are allocated between common stockholders and the participating awards, as if the awards were a second class of stock. During periods of net income, the calculation of earnings per share excludes the income attributable to participating securities in the numerator and the dilutive impact of these securities from the denominator. In the event of a net loss, undistributed earnings are not allocated to participating securities and the denominator excludes the dilutive impact of these securities as they do not share in the losses of the Company. During the three months ended December 31, 2018, undistributed earnings allocated to participating securities were based on 191,331 time-based restricted stock awards.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and the related notes appearing under Item 1 of Part I of this Quarterly Report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to our plans and strategy for our business and expected financial results, includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" discussed in our Annual Report on Form 10-K for the year ended
June 30, 2018 and subsequent Quarterly Reports on Form 10-Q, including in Item 1A of Part II of this Quarterly Report on Form 10-Q, for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

OVERVIEW

We are a medical technology company leading the way in the effort to successfully treat patients suffering from peripheral and coronary artery diseases, including those with arterial calcium, the most difficult arterial disease to treat. We are committed to clinical rigor, constant innovation and a defining drive to set the industry standard to deliver safe and effective medical devices that improve lives of patients facing these difficult disease states.

We have observed some degree of seasonality in our business, as there tends to be a lower number of procedures that use our products during the three months ending September 30. Interventional procedure volume usually grows throughout the course of the fiscal year, with the three months ending June 30 usually representing the highest volume of cases and, therefore, the highest amount of revenue generated by us during the course of the fiscal year.

Peripheral

Our peripheral arterial disease ("PAD") products, are catheter-based platforms capable of treating a broad range of plaque types in leg arteries both above and below the knee, including calcified plaque, and address many of the limitations associated with other existing surgical, catheter and pharmacological treatment alternatives. The micro-invasive devices use small access sheaths that can provide procedural benefits, allow physicians to treat PAD patients in even the small and tortuous vessels located below the knee, and facilitate access through alternative sites in the ankle, foot and wrist, as well as in the groin. We refer to each of the PAD products in this report as the "Peripheral OAS."

The United States Food and Drug Administration ("FDA") has granted us 510(k) clearances for our Peripheral OAS devices as a therapy in patients with PAD, as discussed in Item 1 of Part I of our Annual Report on Form 10-K for the year ended June 30, 2018.

Coronary

Our coronary arterial disease ("CAD") product, the Diamondback 360 Coronary OAS ("Coronary OAS"), is marketed as a treatment for severely calcified coronary arteries. The Coronary OAS is a catheter-based platform designed to facilitate stent delivery in patients with CAD who are acceptable candidates for percutaneous transluminal coronary angioplasty or stenting due to de novo, severely calcified coronary artery lesions. The Coronary OAS design is similar to technology used in our Peripheral OAS, customized specifically for the coronary application.

In October 2013, we received premarket approval from the FDA to market the Coronary OAS as a treatment for severely calcified coronary arteries and we commenced a commercial launch that same month.

International

We commercialized our Coronary OAS Micro Crown device in Japan in February 2018 through our distributor, Medikit Co., Ltd. In January 2019, we announced that Japan's Ministry of Health, Labor and Welfare approved our Coronary OAS Classic Crown. We expect commercial sales of this product to commence in Japan in the third quarter of fiscal 2019.

In fiscal 2019, we announced the first commercial use of Peripheral OAS outside of the United States, which occurred in Hong Kong, Germany, and the Middle East through our international distributor, OrbusNeich. We continue to evaluate and pursue additional international markets to expand the coronary and peripheral opportunities.

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CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS AND ESTIMATES

Our management's discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our consolidated financial statements requires us to make estimates, assumptions and judgments that affect amounts reported in those statements. Our estimates, assumptions and judgments, including those related to revenue recognition, deferred revenue and stock-based compensation, are updated as appropriate at least quarterly. We use authoritative pronouncements, our technical accounting knowledge, cumulative business experience, judgment and other factors in the selection and application of our accounting policies. While we believe that the estimates, assumptions and judgments that we use in preparing our consolidated financial statements are appropriate, these estimates, assumptions and judgments are subject to factors and uncertainties regarding their outcome. Therefore, actual results may materially differ from these estimates.

Some of our significant accounting policies require us to make subjective or complex judgments or estimates. An accounting estimate is considered to be critical if it meets both of the following criteria: (1) the estimate requires assumptions about matters that are highly uncertain at the time the accounting estimate is made, and (2) different estimates that reasonably could have been used, or changes in the estimate that are reasonably likely to occur from period to period, would have a material impact on the presentation of our financial condition, results of operations, or cash flows.

Our critical accounting policies are identified in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018 in Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading "Critical Accounting Policies and Significant Judgments and Estimates." There have been no changes in our critical accounting policies other than our adoption of ASC Topic 606 - Revenue from Contracts with Customers. See Note 3 to our Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q for additional discussion.

RESULTS OF OPERATIONS

The following table sets forth our results of operations expressed as dollar amounts (in thousands) and the changes between the specified periods expressed as percent increases or decreases:

Total	$ 664,312	$ 2,002	$ 521	$ 1,540	$ 4,063	$ 668,375	$ 12

	December 31, 2011						
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due	Total Past Due	Total Loans	90 Days Past Due and Still Accruing
Commercial	$ 83,124	$	$	$	$	$ 83,124	$
Commercial loans secured by real estate	347,671	650		1,457	2,107	349,778	
Real estate- mortgage	209,060	2,133	629	841	3,603	212,663	
Consumer	18,115	57			57	18,172	
Total	$ 657,970	$ 2,840	$ 629	$ 2,298	$ 5,767	$ 663,737	$

An allowance for loan losses (ALL) is maintained to absorb losses from the loan portfolio. The ALL is based on management s continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative factors.

Management tracks the historical net charge-off activity at each risk rating grade level for the entire commercial portfolio and at the aggregate level for the consumer, residential mortgage and small business portfolios. A historical charge-off factor is calculated utilizing a rolling 12 consecutive historical quarters for the commercial portfolios. This historical charge-off factor for the consumer, residential mortgage and small business portfolios are based on a three year historical average of actual loss experience.

The Company uses a comprehensive methodology and procedural discipline to maintain an ALL to absorb inherent losses in the loan portfolio. The Company believes this is a critical accounting policy since it involves significant estimates and judgments. The allowance consists of three elements: 1) an allowance established on specifically identified problem loans, 2) formula driven general reserves established for loan categories based upon historical loss experience and other qualitative factors which include delinquency, non-performing and TDR loans, loan trends, economic trends, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies, and trends in policy, financial information, and documentation exceptions, and 3) a general risk reserve which provides support for variance from our assessment of the previously listed qualitative factors, provides protection against credit risks resulting from other inherent risk factors contained in the Company s loan portfolio, and recognizes the model and estimation risk associated with the specific and formula driven allowances. The qualitative factors used in the formula driven general reserves are evaluated quarterly (and revised if necessary) by the Company s management to establish allocations which accommodate each of the listed risk factors.

Pass rated credits are segregated from Criticized and Classified credits for the application of qualitative factors.

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.

9. **Non-performing Assets Including Troubled Debt Restructurings (TDR)**

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

	March 31, 2012	December 31, 2011
Non-accrual loans		
Commercial	$	$
Commercial loans secured by real estate	3,507	3,870
Real estate-mortgage	1,003	1,205
Total	4,510	5,075
Past due 90 days and still accruing		
Real estate-mortgage	12	
Total	12	
Other real estate owned		
Commercial loans secured by real estate	24	20
Real estate-mortgage	115	104
Total	139	124
TDR s not in non-accrual	140	
Total non-performing assets including TDR	$ 4,801	$ 5,199
Total non-performing assets as a percent of loans and loans held for sale, net of unearned income, and other real estate owned	0.72%	0.77%

Consistent with accounting and regulatory guidance, the bank recognizes a TDR when the bank, for economic or legal reasons related to a borrower s financial difficulties, grants a concession to the borrower that would not normally be considered. Regardless of the form of concession granted, the bank s objective in offering a troubled debt restructure is to increase the probability of repayment of the borrower s loan.

To be considered a TDR, both of the following criteria must be met:

the borrower must be experiencing financial difficulties; and

the bank, for economic or legal reasons related to the borrower s financial difficulties, grants a concession to the borrower that would not otherwise be considered.

Factors that indicate a borrower is experiencing financial difficulties include, but are not limited to:

the borrower is currently in default on their loan(s);

the borrower has filed for bankruptcy;

the borrower has insufficient cash flows to service their loan(s); <u>and</u>

the borrower is unable to obtain refinancing from other sources at a market rate similar to rates available to a non-troubled debtor.
Factors that indicate that a concession has been granted include, but are not limited to:

the borrower is granted an interest rate reduction to a level below market rates for debt with similar risk; <u>or</u>

the borrower is granted a material maturity date extension, or extension of the amortization plan to provide payment relief. For purposes of this policy, a material maturity date extension will generally include any maturity date extension, or the aggregate of multiple consecutive maturity date extensions, that exceed 120 days. A restructuring that results in an insignificant delay in payment, i.e. 120 days or less, is not necessarily a TDR. Insignificant payment delays occur when the amount of the restructured payments subject to the delay is insignificant relative to the unpaid principal or collateral value, and will result in an insignificant shortfall in the originally scheduled contractual amount due, and/or the delay in timing of the restructured payment period is insignificant relative to the frequency of payments, the original maturity or the original amortization.

The determination of whether a restructured loan is a TDR requires consideration of all of the facts and circumstances surrounding the modification. No single factor is determinative of whether a restructuring is a TDR. An overall general decline in the economy or some deterioration in a borrower s financial condition does not automatically mean that the borrower is experiencing financial difficulty. Accordingly, determination of whether a modification is a TDR involves a large degree of judgment.

Any loan modification where the borrower s aggregate exposure is at least $250,000 and where the loan currently maintains a criticized or classified risk rating, i.e. OLEM, Substandard or Doubtful, or where the loan will be assigned a criticized or classified rating after the modification is evaluated to determine the need for TDR classification.

The following table details the TDRs at March 31, 2012 (dollars in thousands).

Loans in accrual status	# of Loans	Current Balance	Concession Granted
Commercial loan secured by real estate	2	$ 140	Extension of maturity date

Loans in non-accrual status	# of Loans	Current Balance	Concession Granted
Commercial loan secured by real estate	4	$ 2,527	Extension of maturity date

The following table details the TDRs at December 31, 2011 (dollars in thousands).

Loans in non-accrual status	# of Loans	Current Balance	Concession Granted
Commercial loan secured by real estate	5	$ 2,870	Extension of maturity date

In all instances where loans have been modified in troubled debt restructurings the pre- and post-modified balances are the same.

Once a loan is classified as a TDR, this classification will remain until documented improvement in the financial position of the account supports confidence that all principal and interest will be paid according to terms. Additionally, the customer must have re-established a track record of timely payments according to the restructured contract terms for a minimum of six (6) consecutive months prior to consideration for removing the loan from TDR status. However, a loan will continue to be on non-accrual status until, consistent with our policy, the borrower has made a minimum of six consecutive payments in accordance with the terms of the loan.

During the first quarter of 2012, the Company had one restructured commercial real-estate loan, that was transferred during the past 12 months into non-accrual status, that subsequently defaulted, and was sold to an independent party for $275,000. The Company charged down the loan by $32,000 to facilitate the sale.

The Company is unaware of any additional loans which are required to either be charged-off or added to the non-performing asset totals disclosed above. Other real estate owned is recorded at fair value minus estimated costs to sell.

The following table sets forth, for the periods indicated, (1) 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, (2) the amount of interest income actually recorded on such loans, and (3) the net reduction in interest income attributable to such loans (in thousands).

	Three months ended March 31,	
	2012	2011
Interest income due in accordance with original terms	$ 84	$ 135
Interest income recorded		(173)
Net reduction (increase) in interest income	$ 84	$ (38)

10. **Federal Home Loan Bank Borrowings**

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

	At March 31, 2012		
Type	Maturing	Amount	Weighted Average Rate
Open Repo Plus	Overnight	$ 1,390	0.25%
Advances	2012	5,000	1.29
Total advances		5,000	1.29
Total FHLB borrowings		$ 6,390	1.06%

	At December 31, 2011		
Type	Maturing	Amount	Weighted Average Rate
Open Repo Plus	Overnight	$ 15,765	0.34%
Advances	2012	6,000	1.30
Total advances		6,000	1.30
Total FHLB borrowings		$ 21,765	0.60%

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

11. **Preferred Stock**
SBLF:

On August 11, 2011, pursuant to the Small Business Lending Fund (SBLF), the Company issued and sold to the US Treasury 21,000 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series E (Series E Preferred Stock) for the aggregate proceeds of $21 million. The SBLF is a voluntary program sponsored by the US Treasury that encourages small business lending by providing capital to qualified community banks at favorable rates. The interest rate on the Series E Preferred Stock has been initially set at 5% per annum and may be decreased to as low as 1% per annum if growth thresholds are met for qualified outstanding small business loans. The Company used the proceeds from the Series E Preferred Stock issued to the US Treasury to repurchase all 21,000 shares of its outstanding preferred shares previously issued to the US Treasury under the TARP Capital Purchase Program.

The Series E Preferred Stock has an aggregate liquidation preference of approximately $21 million and qualifies as Tier 1 Capital for regulatory purposes. The terms of the Series E Preferred Stock provide for the payment of non-cumulative dividends on a quarterly basis. The dividend rate, as a percentage of the liquidation amount, may fluctuate while the Series E Preferred Stock is outstanding based upon changes in the level of qualified small business lending (QSBL) by the Bank from its average level of QSBL at each of the four quarter ends leading up to June 30, 2010 (the Baseline) as follows:

Dividend Period Annualized		Annualized
Beginning	Ending	Dividend Rate
August 11, 2011	December 31, 2011	5.0%
January 1, 2012	December 31, 2013	1.0% to 5.0%
January 1, 2014	February 7, 2016	1.0% to 7.0%(1)
February 8, 2016	Redemption	9.0%(2)

(1) Between January 1, 2014 and February 7, 2016, the dividend rate will be fixed at a rate in such range based upon the level of percentage change in QSBL between September 30, 2013 and the Baseline.
(2) Beginning on February 8, 2016, the dividend rate will be fixed at nine percent (9%) per annum.

In addition to the applicable dividend rates described above, beginning on January 1, 2014 and on all dividend payment dates thereafter ending on April 1, 2016, if we fail to increase our level of QSBL compared to the Baseline, we will be required to pay a quarterly lending incentive fee of 0.5% of the liquidation value.

As long as shares of Series E Preferred Stock remain outstanding, we may not pay dividends to our common shareholders (nor may we repurchase or redeem any shares of our common stock) during any quarter in which we fail to declare and pay dividends on the Series E Preferred Stock and for the next three quarters following such failure. In addition, under the terms of the Series E Preferred Stock, we may only declare and pay dividends on our common stock (or repurchase shares of our common stock), if, after payment of such dividend, the dollar amount of our Tier 1 capital would be at least ninety percent (90%) of Tier 1

capital as of June 30, 2011, excluding any charge-offs and redemptions of the Series E Preferred Stock (the Tier 1 Dividend Threshold). The Tier 1 Dividend Threshold is subject to reduction, beginning January 1, 2014, based upon the extent by which, if at all, the QSBL at September 30, 2013 has increased over the Baseline.

We may redeem the Series E Preferred Stock at any time at our option, at a redemption price of 100% of the liquidation amount plus accrued but unpaid dividends, subject to the approval of our federal banking regulator.

12. **Regulatory Capital**

The Company is subject to various capital requirements administered by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company s consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. As of March 31, 2012, the Federal Reserve categorized the Company as Well Capitalized under the regulatory framework for prompt corrective action. The Company believes that no conditions or events have occurred that would change this conclusion. To be categorized as well capitalized, the Company must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. Additionally, while not a regulatory capital ratio, the Company s tangible common equity ratio was 8.24% at March 31, 2012 (in thousands, except ratios).

	At March 31, 2012					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (To Risk Weighted Assets) Consolidated	$ 121,345	17.22%	$ 56,359	8.00%	$ 70,449	10.00%
AmeriServ Financial Bank	101,993	14.60	55,887	8.00	69,859	10.00
Tier 1 Capital (To Risk Weighted Assets) Consolidated	112,468	15.96	28,180	4.00	42,269	6.00
AmeriServ Financial Bank	93,189	13.34	27,944	4.00	41,916	6.00
Tier 1 Capital (To Average Assets) Consolidated	112,468	11.83	38,015	4.00	47,518	5.00
AmeriServ Financial Bank	93,189	10.03	37,158	4.00	46,447	5.00

	At December 31, 2011					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Amount	Ratio	Amount
Total Capital (To Risk Weighted Assets) Consolidated	$ 120,315	17.60%	$ 54,702	8.00%	$ 68,377	10.00%
AmeriServ Financial Bank	101,406	14.96	54,231	8.00	67,789	10.00
Tier 1 Capital (To Risk Weighted Assets) Consolidated	111,683	16.33	27,351	4.00	41,026	6.00
AmeriServ Financial Bank	92,847	13.70	27,116	4.00	40,673	6.00
Tier 1 Capital (To Average Assets) Consolidated	111,683	11.66	38,317	4.00	47,896	5.00
AmeriServ Financial Bank	92,847	9.90	37,498	4.00	46,872	5.00

13. **Segment Results**

The financial performance of the Company is also monitored by an internal funds transfer pricing profitability measurement system which produces line of business results and key performance measures. The Company s major business units include retail banking, commercial lending, trust, and investment/parent. The reported results reflect the underlying economics of the business segments. Expenses for centrally provided services are allocated based upon the cost and estimated usage of those services. The businesses are match-funded and interest rate risk is centrally managed and accounted for within the investment/parent business segment. The key performance measure the Company focuses on for each business segment is net income contribution.

Retail banking includes the deposit-gathering branch franchise and lending to both individuals and small businesses. Lending activities include residential mortgage loans, direct consumer loans, and small business commercial loans. Commercial banking to businesses includes commercial loans, and commercial real-estate loans. The trust segment contains our wealth management businesses which include the Trust Company, West Chester Capital Advisors, our registered investment advisory firm and financial services. Wealth management includes personal trust products and services such as personal portfolio investment management, estate planning and administration, custodial services and pre-need trusts. Also, institutional trust products and services such as 401(k) plans, defined benefit and defined contribution employee benefit plans, and individual retirement accounts are included in this segment. Financial services include the sale of mutual funds, annuities, and insurance products. The Wealth management businesses also includes the union collective investment funds, namely the ERECT and BUILD funds which are designed to use union pension dollars in construction projects that utilize union labor. The investment/parent includes the net results of investment securities and borrowing activities, general corporate expenses not allocated to the business segments, interest expense on guaranteed junior subordinated deferrable interest debentures, and centralized interest rate risk management. Inter-segment revenues were not material.

The contribution of the major business segments to the Consolidated Results of Operations for the three months ended March 31, 2012 and 2011 were as follows (in thousands):

	Three months ended March 31, 2012		March 31, 2012
	Total revenue	Net income (loss)	Total assets
Retail banking	$ 6,703	$ 841	$ 325,790
Commercial banking	3,594	1,246	447,279
Trust	1,977	252	4,243
Investment/Parent	(542)	(774)	190,089
Total	$ 11,732	$ 1,565	$ 967,401

	Three months ended March 31, 2011		March 31, 2011
	Total revenue	Net income (loss)	Total assets
Retail banking	$ 6,299	$ 187	$ 331,705
Commercial banking	3,348	1,558	429,967
Trust	1,819	183	4,123
Investment/Parent	(395)	(665)	195,272
Total	$ 11,071	$ 1,263	$ 961,067

14. **Commitments and Contingent Liabilities**

The Company had various outstanding commitments to extend credit approximating $137.2 million and standby letters of credit of $10.2 million as of March 31, 2012. The Company s exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Bank uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending.

Additionally, the Company is also subject to a number of asserted and unasserted potential claims encountered in the normal course of business. In the opinion of the Company, neither the resolution of these claims nor the funding of these credit commitments will have a material adverse effect on the Company s consolidated financial position, results of operation or cash flows.

15. **Pension Benefits**

The Company has a noncontributory defined benefit pension plan covering all employees who work at least 1,000 hours per year. The participants shall have a vested interest in their accrued benefit after five full years of service. The benefits of the plan are based upon the employee s years of service and average annual earnings for the highest five consecutive calendar years during the final ten year period of employment. Plan assets are primarily debt securities (including U.S. Treasury and Agency securities, corporate notes and bonds), listed common stocks (including shares of AmeriServ Financial, Inc. common stock which is limited to 10% of the plan s assets), mutual funds, and short-term cash equivalent instruments. The net periodic pension cost for the three months ended March 31, 2012 and 2011 were as follows (in thousands):

	Three months ended March 31,	
	2012	2011
Components of net periodic benefit cost		
Service cost	$ 373	$ 303

Interest cost	299	301
Expected return on plan assets	(406)	(393)
Amortization of prior year service cost	(5)	2
Amortization of transition asset	(4)	(4)
Recognized net actuarial loss	262	203
Net periodic pension cost	$ 519	$ 412

16. **Disclosures About Fair Value Measurements**

The following disclosures establish a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined within this hierarchy are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

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 US 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.

The fair value of the swap asset and liability is based on an external derivative valuation model using data inputs as of the valuation date and classified Level 2.

The following tables present the assets reported on the consolidated balance sheets at their fair value as of March 31, 2012 and December 31, 2011, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets and Liability Measured on a Recurring Basis

Assets and liability measured at fair value on a recurring basis are summarized below (in thousands):

	Fair Value Measurements at March 31, 2012 Using			
	Total	(Level 1)	(Level 2)	(Level 3)
U.S. Agency securities	$ 7,189	$	$ 7,189	$
U.S. Agency mortgage-backed securities	168,114		168,114	
Other securities	2,959		2,959	
Fair value of swap asset	317		317	
Fair value of swap liability	317		317	

	Fair Value Measurements at December 31, 2011 Using			
	Total	(Level 1)	(Level 2)	(Level 3)
U.S. Agency securities	$ 10,709	$	$ 10,709	$
U.S. Agency mortgage-backed securities	172,214		172,214	
Fair value of swap asset	346		346	
Fair value of swap liability	346		346	

Loans considered impaired are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. As detailed in the allowance for loan loss footnote, impaired loans are reported at fair value of the underlying collateral if the repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on observable market data which at times are discounted. At March 31, 2012, impaired loans with a carrying value of $3.6 million were reduced by a specific valuation allowance totaling $955,000 resulting in a net fair value of $2.7 million. At December 31, 2011, impaired loans with a carrying value of $3.9 million were reduced by a specific valuation allowance totaling $968,000 resulting in a net fair value of $2.9 million.

Other real estate owned (OREO) is measured at fair value based on appraisals, 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 OREO.

Assets Measured on a Non-recurring Basis

Assets measured at fair value on a non-recurring basis are summarized below (in thousands):

	Fair Value Measurements at March 31, 2012 Using			
	Total	(Level 1)	(Level 2)	(Level 3)
Impaired loans	$ 2,692	$	$	$ 2,692
Other real estate owned	139			139

	Fair Value Measurements at December 31, 2011 Using			
	Total	(Level 1)	(Level 2)	(Level 3)
Impaired loans	$ 2,902	$	$	$ 2,902
Other real estate owned	124			124

March 31, 2012	Quantitative Information About Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range
Impaired loans			Appraisal adjustments(2)	0% to -35%
	$ 2,692	Appraisal of collateral(1)	Liquidation expenses(2)	0% to -15%
Other real estate owned	139	Appraisal of collateral (1), (3)		0% to -20%

(1) Fair Value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.
(3) Includes qualitative adjustments by management and estimated liquidation expenses.

DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

For the Company, as for most financial institutions, approximately 90% of its assets and liabilities are considered financial instruments. Many of the Company s financial instruments, however, lack an available trading market characterized by a willing buyer and willing seller engaging in an exchange transaction. Therefore, significant estimates and present value calculations were used by the Company for the purpose of this disclosure.

Fair values have been determined by the Company using independent third party valuations that use the best available data (Level 2) and an estimation methodology (Level 3) the Company believes is suitable for each category of financial instruments. Management believes that cash, cash equivalents, and loans and deposits with floating interest rates have estimated fair values which approximate the recorded book balances. The estimation methodologies used, the estimated fair values based on US GAAP measurements, and recorded book balances at March 31, 2012 and December 31, 2011, were as follows (in thousands):

	March 31, 2012				
	Carrying Value	Fair Value	(Level 1)	(Level 2)	(Level 3)
FINANCIAL ASSETS:					
Cash and cash equivalents	$ 26,002	$ 26,002	$ 26,002	$	$
Investment securities	190,089	190,687		187,695	2,992
Regulatory stock	7,722	7,722	7,722		
Loans held for sale	2,953	3,013	3,013		
Loans, net of allowance for loan loss and unearned income	654,597	662,010			662,010
Accrued income receivable	3,146	3,146	3,146		
Bank owned life insurance	35,566	35,566	35,566		
Fair value swap asset	317	317		317	
FINANCIAL LIABILITIES:					
Deposits with no stated maturities	$ 495,555	$ 495,555	$ 495,555	$	$
Deposits with stated maturities	324,550	329,835			329,835
Short-term borrowings	1,390	1,390	1,390		
All other borrowings	18,085	22,114			22,114
Accrued interest payable	2,198	2,198	2,198		
Fair value swap liability	317	317		317	

	December 31, 2011	
	Carrying Value	Fair Value
FINANCIAL ASSETS:		
Cash and cash equivalents	$ 34,783	$ 34,783
Investment securities	195,203	195,837
Regulatory stock	8,016	8,016
Loans held for sale	7,110	7,195
Loans, net of allowance for loan loss and unearned income	649,114	655,357
Accrued income receivable	3,216	3,216
Bank owned life insurance	35,351	35,351
Fair value swap asset	346	346
FINANCIAL LIABILITIES:		
Deposits with no stated maturities	$ 482,859	$ 482,859
Deposits with stated maturities	333,561	338,683
Short-term borrowings	15,765	15,765
All other borrowings	19,085	23,606
Accrued interest payable	2,523	2,523
Fair value swap liability	346	346

The fair value of cash and cash equivalents, regulatory stock, accrued income receivable, short-term borrowings, and accrued interest payable are equal to the current carrying value.

The fair value of investment securities is equal to the available quoted market price for similar securities. The fair value measurements consider observable data that may include dealer quoted market spreads, cash flows, the US 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. The level 3 security is valued by discounted cash flows using the US Treasury rate for the remaining term of the security.

Loans held for sale are priced individually at market rates on the day that the loan is locked for commitment with an investor. All loans in the held for sale account conform to Fannie Mae underwriting guidelines, with the specific intent of the loan being purchased by an investor at the predetermined rate structure. Loans in the held for sale account have specific delivery dates that must be executed to protect the pricing commitment (typically a 30, 45, or 60 day lock period).

The net loan portfolio has been valued using a present value discounted cash flow. The discount rate used in these calculations is based upon the treasury yield curve adjusted for non-interest operating costs, credit loss, current market prices and assumed prepayment risk.

The fair value of bank owned life insurance is based upon the cash surrender value of the underlying policies and matches the book value.

Deposits with stated maturities have been valued using a present value discounted cash flow with a discount rate approximating current market for similar assets and liabilities. Deposits with no stated maturities have an estimated fair value equal to both the amount payable on demand and the recorded book balance.

The fair value of all other borrowings is based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities.

The fair values of the swaps used for interest rate risk management represents the amount the Company would have expected to receive or pay to terminate such agreements.

Changes in assumptions or estimation methodologies may have a material effect on these estimated fair values. The Company s remaining assets and liabilities which are not considered financial instruments have not been valued differently than has been customary under historical cost accounting.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (M.D.& A.)

..2012 FIRST QUARTER SUMMARY OVERVIEW .. Net Income for the first quarter of 2012 was $1,565,000 or $0.06 per diluted share. This represents an increase of $302,000 or 23.9% from the first quarter 2011 net income of $1,263,000 or $0.05 per diluted common share. There was a greater percentage increase in earnings per share due to the success of the Company s common stock repurchase program as the Company s increased 2012 earnings are being spread over a smaller number of average shares outstanding. This performance marks the eighth consecutive quarter of positive earnings. It was a quarter marked by a series of positive events; for example

In spite of the weak national economy, Loans Outstanding increased at quarter end for the fourth consecutive quarter

Deposit totals closed the quarter at the second highest quarter ending level ever recorded by the Company

Non-Interest Income was at the highest level in five quarters

Non-Performing Assets were at the lowest level since the 4th quarter of 2008.

We are pleased to recount these positives for we believe it is a tribute to planning, execution and discipline. This quarter was the first quarter of activity in support of the 2012-2015 Strategic Plan. This meant an even stronger emphasis on customer service and prospect calling. Over the last six months, AmeriServ has opened three new Loan Production Offices in Altoona and Harrisburg, PA, and Hagerstown, MD. These new offices will add to the growing loan totals, but also increase the geographical diversity of the overall portfolio. These offices are modeled after the very successful Loan Production Office which has been in Monroeville, PA for several years. Management has committed to maintain the same high credit standards in these offices that has marked the improvement in AmeriServ s asset quality since the depths of the recession.

AmeriServ Trust and Financial Services continued its turnaround during the quarter. Its net income surpassed the first quarter of 2011 by 38%. This gain was occasioned by an 8.7% gain in revenues while holding expense growth to just 3.6%. It is important to note that the integration of the Trust Company Investment Division with West Chester Capital Advisors continued as planned during the quarter. This step forward will bring an ever broader array of investment discipline choices to every client.

All of this progress is possible because the same discipline which enabled AmeriServ to emerge from the recession strong is now transitioning to a focus on growth with earnings. However, this growth will not be sought in risky financial initiatives, but in fundamentally sound community banking products and services. AmeriServ is first of all focused intensely on its primary markets in the Laurel Highlands. But it is also quite active in the fast growing State College market and in the increasingly strong Pittsburgh market place. The additional Loan Production Offices will build on top of this solid foundation and expand our footprint for loans.

The Board and management recognized when it applied to be designated as a Small Business Lending Fund (SBLF) participant that it would be accepting a daunting challenge to increase these loans in this weak economy. But since being so designated, AmeriServ has grown that special category of loans by $11 million above the baseline. This is aiding small businesses in the region and fulfilling a commitment to the U.S. Treasury. It is just this kind of commitment and this kind of performance that makes community banks such a precious resource to the broader economy of this nation. We respect and understand the role of the mega banks, but we believe that the nation s community banks are the mortar between the bricks that is so essential for a strong United States.

We are aware that our national economy has been less dynamic than we all wish. The beginning of the Great Recession in 2008 is now four long and hard years ago. We recognize that unemployment is still a serious and stubborn challenge. We watch with concern the budgetary deficit issues our elected officials must face at some point. We see the sovereign nations of Europe struggling to keep their currency union viable. The reaction of this Board and this management team to these challenges is to re-emphasize our commitment to safe and sane banking. AmeriServ will maintain a conservative balance sheet. AmeriServ will maintain strong capital and deep liquidity. AmeriServ will adhere to time tested loan underwriting standards and maintain a low risk securities portfolio while AmeriServ Trust Company will manage its clients wealth with respect for their need for diversification and a professionally trained watchful eye. It is our belief that this is the way to build a strong company for our customers, career opportunities for our employees and a rewarding investment for our shareholders.

THREE MONTHS ENDED MARCH 31, 2012 VS. THREE MONTHS ENDED MARCH 31, 2011

.....PERFORMANCE OVERVIEW..... The following table summarizes some of the Company s key performance indicators (in thousands, except per share and ratios).

	Three months ended March 31, 2012	Three months ended March 31, 2011
Net income	$ 1,565	$ 1,263
Diluted earnings per share	0.06	0.05
Return on average assets (annualized)	0.65%	0.54%
Return on average equity (annualized)	5.60%	4.77%

The Company continued its positive earnings momentum in the first quarter of 2012 by reporting net income of $1,565,000 or $0.06 per diluted common share. This represents an increase of $302,000, or 23.9%, from the first quarter 2011 net income of $1,263,000 or $0.05 per diluted common share. The growth in net income was driven by increased non-interest revenue and stable net interest margin performance. Also, sustained improvements in asset quality again allowed the company to record a credit provision for loan losses in the first quarter of 2012. These positive items were partially offset by modestly higher non-interest expense and increased income tax expense. Diluted earnings per share in the first quarter of 2012 were negatively impacted by the preferred stock dividend related to the US Treasury SBLF program which amounted to $263,000 and reduced the amount of net income available to common shareholders.

.....NET INTEREST INCOME AND MARGIN..... The Company s net interest income represents the amount by which interest income on average earning assets exceeds interest paid on average interest bearing liabilities. Net interest income is a primary source of the Company s earnings, and it is affected by interest rate fluctuations as well as changes in the amount and mix of average earning assets and average interest bearing liabilities. The following table compares the Company s net interest income performance for the first quarter of 2012 to the first quarter of 2011 (in thousands, except percentages):

	Three months ended March 31, 2012	Three months ended March 31, 2011	$ Change	% Change
Interest income	$ 10,124	$ 10,596	$ (472)	(4.5)%
Interest expense	2,066	2,630	(564)	(21.4)
Net interest income	$ 8,058	$ 7,966	$ 92	1.2
Net interest margin	3.70%	3.70%		N/M

N/M not meaningful

The Company s net interest income in the first quarter of 2012 increased by $92,000, or 1.2%, when compared to the first quarter of 2011. The first quarter 2012 net interest margin of 3.70% was consistent with last year s first quarter. The increased net interest income and overall stable net interest margin performance reflects the benefits of a lower cost of funds and moderate loan growth. Specifically, total loans outstanding have increased for four consecutive quarters and now are $26.5 million or 4.1% higher than they were at March 31, 2011. This loan growth reflects the successful results of the Company s more intensive sales calling efforts with a particular emphasis on generating commercial loans and owner occupied commercial real estate loans which qualify as SBLF loans. Despite this growth in loans, total interest revenue dropped by $472,000 between years and reflects the lower interest rate environment and flatter yield curve.

However, careful management of funding costs allowed the Company to reduce interest expense to a greater extent than the decline in interest revenue. Specifically, interest expense in the first quarter of 2012 declined by $564,000 from the same prior year quarter due to the Company s proactive efforts to reduce deposit and borrowing costs. This reduction in deposit costs has not impacted average total deposit balances which have remained stable decreasing modestly by $790,000 during this same period. The Company is pleased that there has been $9.1 million of growth in average non-interest bearing demand deposit accounts whose balances have grown by 6.8% since the first quarter of 2011.

.....COMPONENT CHANGES IN NET INTEREST INCOME.. Regarding the separate components of net interest income, the Company s total interest income for the first quarter of 2012 decreased by $472,000 or 4.5% when compared to the same 2011 quarter. This decrease was due to a 28 basis point decline in the earning asset yield to 4.66%. Within the earning asset base, the yield on the total loan portfolio decreased by 30 basis points to 5.21% while the yield on total investment securities dropped by 34 basis points to 2.86%. In the current interest rate environment, new investment securities and loans that are being booked typically have yields that are below the rate on the maturing instruments that they are replacing. The Company has generated increased new commercial loan originations that qualify for inclusion in SBLF program over the past three quarters. However, continued strong pay-offs of larger investment commercial real-estate loans has limited the net growth in the total loan portfolio. Improved commercial loan pipelines, which reflect the three new Loan Production Offices, suggest that the Company should be able to grow the loan portfolio throughout 2012.

The Company s total interest expense for the first quarter of 2012 decreased by $564,000 or 21.4% when compared to the same 2011 quarter. This decrease in interest expense was due to a lower cost of funds as the cost of interest bearing liabilities declined by 33 basis points to 1.19%. This decrease in funding costs was aided by a drop in interest expense associated with a $7.3 million decrease in the volume of interest bearing liabilities. Specifically, the average balance of interest bearing deposits declined by $9.8 million, and was partially offset by a $2.6 million increase in all FHLB borrowings. The Company also replaced some of these interest bearing liabilities with non-interest bearing demand deposits which increased by $9.1 million.

The table that follows provides an analysis of net interest income on a tax-equivalent basis for the three month periods ended March 31, 2012 and March 31, 2011 setting forth (i) average assets, liabilities, and stockholders equity, (ii) interest income earned on interest earning assets and interest expense paid on interest bearing liabilities, (iii) average yields earned on interest earning assets and average rates paid on interest bearing liabilities, (iv) the Company s interest rate spread (the difference between the average yield earned on interest earning assets and the average rate paid on interest bearing liabilities), and (v) the Company s net interest margin (net interest income as a percentage of average total interest earning assets). For purposes of these tables, loan balances do include non-accrual loans, and interest income on loans includes loan fees or amortization of such fees which have been deferred, as well as interest recorded on certain non-accrual loans as cash is received. Additionally, a tax rate of 34% is used to compute tax-equivalent yields.

Three months ended March 31 (In thousands, except percentages)

	2012			2011		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Interest earning assets:						
Loans and loans held for sale, net of unearned income	$ 666,575	$ 8,734	5.21%	$ 661,061	$ 9,091	5.51%
Interest bearing deposits	4,027	1	0.11	1,786		
Short-term investment in money market funds	5,168	3	0.33	3,855	3	0.32
Federal funds sold				14,178	4	0.11
Investment securities AFS	181,905	1,279	2.81	179,846	1,411	3.14
Investment securities HTM	12,671	112	3.54	8,691	95	4.37
Total investment securities	194,576	1,391	2.86	188,537	1,506	3.20
Total interest earning assets/interest income	870,346	10,129	4.66	869,417	10,604	4.94
Non-interest earning assets:						
Cash and due from banks	17,163			15,555		
Premises and equipment	10,826			10,483		
Other assets	82,302			79,615		
Allowance for loan losses	(14,486)			(19,834)		
TOTAL ASSETS	$ 966,151			$ 955,236		
Interest bearing liabilities:						
Interest bearing deposits:						
Interest bearing demand	$ 56,346	$ 28	0.20%	$ 55,092	$ 28	0.21%
Savings	83,678	52	0.25	78,545	74	0.38
Money markets	202,156	238	0.47	185,933	292	0.64
Other time	327,680	1,444	1.77	360,137	1,900	2.14
Total interest bearing deposits	669,860	1,762	1.06	679,707	2,294	1.37
Short-term borrowings:						
Other short-term borrowings	4,233	4	0.35	424	1	0.73
Advances from Federal Home Loan Bank	8,493	20	0.99	9,743	55	2.31
Guaranteed junior subordinated deferrable interest debentures	13,085	280	8.57	13,085	280	8.57
Total interest bearing liabilities/interest expense	695,671	2,066	1.19	702,959	2,630	1.52
Non-interest bearing liabilities:						
Demand deposits	142,106			133,049		
Other liabilities	16,067			11,859		
Shareholders equity	112,307			107,369		
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 966,151			$ 955,236		
Interest rate spread			3.47			3.42
Net interest income/ Net interest margin		8,063	3.70%		7,974	3.70%
Tax-equivalent adjustment		(5)			(8)	
Net Interest Income		$ 8,058			$ 7,966	

..PROVISION FOR LOAN LOSSES..... Sustained improvements in asset quality evidenced by lower levels of non-performing assets and criticized loans allowed the Company to reverse a portion of the allowance for loan losses into earnings in the first quarter of 2012 while still maintaining especially strong coverage ratios. During the first quarter of 2012, total non-performing assets declined to $4.8 million or 0.72% of total loans as a result of successful ongoing resolution efforts. Criticized loans also dropped by $10 million or 20.4% during this same period.

As a result of this improvement, the Company again recorded a negative provision for loan losses of $625,000 in the first quarter of 2012 compared to a similar credit provision of $600,000 in the first quarter of 2011. Actual credit losses realized through net charge-offs also declined sharply in the first quarter of 2012. Net charge-offs in the first quarter of 2012 totaled only $220,000, or 0.13% of total loans, compared to net charge-offs of $1.1 million, or 0.70% of total loans, in the first quarter of 2011. When determining the provision for loan losses, the Company considers a number of factors some of which include periodic credit reviews, non-performing asset, loan delinquency and charge-off trends, concentrations of credit, loan volume trends and broader local and national economic trends. In summary, the allowance for loan losses provided 296% coverage of non-performing loans, and was 2.05% of total loans, at March 31, 2012, compared to 288% of non-performing loans, and 2.18% of total loans, at December 31, 2011.

.....NON-INTEREST INCOME..... Non-interest income for the first quarter of 2012 totaled $3.7 million and increased $569,000 or 18.3% from the first quarter 2011 performance. Factors contributing to this higher level of non-interest income in 2012 included:

in the first quarter of 2011, the Company realized a $358,000 investment security loss on a portfolio repositioning strategy where we sold $17 million of lower yielding, longer duration securities in the portfolio and replaced them with higher yielding securities with a shorter duration. There were no investment security gains or losses in the first quarter of 2012.

a $136,000 or 7.8% increase in trust and investment advisory fees as our wealth management and fiduciary businesses benefited from the implementation of new fee schedules and improved asset values in 2012.

while net gains on loans held for sale only increased by $14,000 between periods, the overall gain of $276,000 generated on residential mortgage loan sold into the secondary market in the first quarter of 2012 represented a strong quarter by historical standards.

.....NON-INTEREST EXPENSE..... Non-interest expense for the first quarter of 2012 totaled $10.1 million and increased by $195,000 or 2.0% from the prior year s first quarter. Factors contributing to the higher non-interest expense in 2012 included:

a $486,000 increase in salaries and employee benefits expense due to higher salaries expense, incentive compensation and pension expense in the first quarter of 2012. The 2012 personnel expenses also reflect the staffing costs associated with new loan production offices in Altoona and Harrisburg, PA, for the full quarter and Hagerstown, Maryland for part of the quarter.

a $333,000 decrease in FDIC expense due to a change in the calculation methodology which took effect in the second half of 2011 and the Company s improved risk profile which is evidenced by better asset quality and increased profitability.

a $105,000 increase in other expense due to an increase in the reserve for unfunded loan commitments as a result of increased commercial loan origination activity in the first quarter of 2012.

.....INCOME TAX EXPENSE..... The Company recorded an income tax expense of $678,000 or an effective tax rate of approximately 30.2% in the first quarter of 2012. This compares to an income tax expense of $489,000 or an effective tax rate of approximately 27.9% recorded in the first three

months of 2011. The higher income tax expense and effective rate in 2012 reflects the Company s increased pre-tax earnings combined with a relatively consistent level of tax free earnings from bank owned life insurance. The Company s deferred tax asset was $12.2 million at March 31, 2012 and relates primarily to net operating loss carryforwards and the allowance for loan losses.

..SEGMENT RESULTS .. Retail banking s net income contribution was $841,000 in the first quarter of 2012 compared to $187,000 for the same comparable period of 2011. The improved performance in 2012 is due to increased non-interest revenue, reduced non-interest expense, and stable net interest margin performance. The improved non-interest revenue reflects a strong quarter of mortgage banking related revenues and increased overdraft fees and deposit service charges. The decline in non-interest expense was due to a $333,000 decrease in FDIC deposit insurance expense.

The commercial banking segment reported net income contributions of $1.3 million in the first quarter of 2012 compared to $1.6 million for the first quarter of 2011. The decrease in earnings between periods was largely due to higher personnel expense and the costs associated with opening three new loan production offices. This segment continued to benefit the most from the sustained improvement in asset quality and the credit provision for loan losses.

The trust segment s net income contribution in the first quarter amounted to $252,000 for the first three months of 2012 compared to $183,000 for the same 2011 period. The increase in net income reflected higher revenue as our wealth management businesses benefitted from the implementation of new fee schedules and increased asset values in the first quarter of 2012.

The investment/parent segment reported a net loss of $774,000 in the first quarter of 2012 compared to the net loss of $665,000 for the first quarter of 2011. Declining yields in the investment securities portfolio and the flatter yield curve have negatively impacted this segment.

.....BALANCE SHEET..... The Company s total consolidated assets were $967 million at March 31, 2012, which was down by $11.7 million or 1.2% from the $979 million level at December 31, 2011. Cash and cash equivalents decreased by $8.8 million as funds from a buildup in demand deposits have predominantly been used to repay debt. Investment security balances decreased by $5 million reflecting the Company s intention to generate liquidity to grow the loan portfolio. The Company s loans and loans held for sale remained stable at $671 million despite portfolio run-off since year-end predominantly in the commercial real estate loan category.

The Company s deposits totaled $820 million at March 31, 2012, which was $3.7 million or 0.5% higher than December 31, 2011, due to an increase in both demand deposits and money market account balances. As a result of this deposit growth and lower cash balances, we were able to reduce total FHLB borrowings by $15.4 million during the first three months of 2012 and these borrowings now represent less than 1% of total assets. The Company s total shareholders equity was relatively unchanged since year-end 2011 as we utilized our net income to repurchase common stock and make preferred stock dividend payments. The Company continues to be considered well capitalized for regulatory purposes with a risk based capital ratio of 17.22%, and an asset leverage ratio of 11.83% at March 31, 2012. The Company s book value per common share was $4.46, its tangible book value per common share was $3.84, and its tangible common equity to tangible assets ratio was 8.24% at March 31, 2012.

.....LOAN QUALITY..... The following table sets forth information concerning the Company s loan delinquency, non-performing assets, and classified assets (in thousands, except percentages):

	March 31, 2012	December 31, 2011	March 31, 2011
Total accruing loan delinquency (past due 30 to 89 days)	$ 2,490	$ 3,319	$ 2,279
Total non-accrual loans	4,510	5,075	7,412
Total non-performing assets including TDR*	4,801	5,199	9,329
Loan delinquency, as a percentage of total loans and loans held for sale, net of unearned income	0.37%	0.49%	0.35%
Non-accrual loans, as a percentage of total loans and loans held for sale, net of unearned income	0.67	0.76	1.15
Non-performing assets, as a percentage of total loans and loans held for sale, net of unearned income, and other real estate owned	0.72	0.77	1.45
Non-performing assets as a percentage of total assets	0.51	0.53	1.11
As a percent of average loans and loans held for sale, net of unearned income:			
Annualized net charge-offs	0.13	0.24	0.70
Annualized provision (credit) for loan losses	(0.38)	(0.54)	(0.37)
Total classified loans (loans rated substandard or doubtful)	$ 19,664	$ 18,542	$ 31,006

* Non-performing assets are comprised of (i) loans that are on a non-accrual basis, (ii) loans that are contractually past due 90 days or more as to interest and principal payments, (iii) performing loans classified as a troubled debt restructuring and (iv) other real estate owned.

As a result of successful ongoing problem credit resolution efforts, the Company sustained meaningful asset quality improvements in the first quarter of 2012. These improvements are evidenced by reduced levels of non-performing assets, classified loans and low loan delinquency levels that continue to be well below 1% of total loans. We continue to closely monitor the loan portfolio given the uncertainty in the economy and the number of relatively large-sized commercial and commercial real estate loans within the portfolio. As of March 31, 2012, the 25 largest credits represented 28% of total loans outstanding.

.....ALLOWANCE FOR LOAN LOSSES..... The following table sets forth the allowance for loan losses and certain ratios for the periods ended (in thousands, except percentages):

	March 31, 2012	December 31, 2011	March 31, 2011
Allowance for loan losses	$ 13,778	$ 14,623	$ 18,025
Allowance for loan losses as a percentage of each of the following:			
total loans and loans held for sale, net of unearned income	2.05%	2.18%	2.80%
total accruing delinquent loans (past due 30 to 89 days)	553.33	440.58	790.92
total non-accrual loans	305.50	288.14	243.19
total non-performing assets	278.85	281.27	169.17

The Company has reversed a portion of the allowance for loan losses into earnings in both 2011 and 2012 due to the previously discussed sustained improvement in asset quality. As a result, the balance in the allowance for loan losses has declined but the Company has been able to strengthen its coverage of non-accrual loans and non-performing assets as indicated in the above table.

.....LIQUIDITY..... The Company s liquidity position has been strong during the last several years. Our core retail deposit base has grown over the past three years and has been more than adequate to fund the Company s operations. Cash flow from maturities, prepayments and amortization of securities was also used to either fund loan growth, paydown borrowings, or reinvested back into the securities portfolio. We strive to operate our loan to deposit ratio in a range of 85% to 95%. At March 31, 2012, the Company s loan to deposit ratio was 81.9%. We are optimistic that we can increase the loan to deposit ratio in 2012 given improved loan pipelines, the opening of three new loan production offices, and our focus on small business lending given our goal of reducing the cost of the SBLF preferred stock.

Liquidity can be analyzed by utilizing the Consolidated Statement of Cash Flows. Cash and cash equivalents decreased by $8.8 million from December 31, 2011, to March 31, 2012, due to $13 million of cash used by financing activities which was partially offset by $4.5 million of cash provided by operating activities. There was hardly any net change in cash from investing activities. Within investing activities, cash provided from investment security maturities exceed cash used for new investment security purchases by $4.8 million. Cash advanced for new loan fundings and purchases (excluding residential mortgages sold in the secondary market) totaled $41.2 million and was $4.8 million higher than the $36.4 million of cash received from loan principal payments. Within financing activities, $15.4 million of cash was used to paydown borrowings and $1.1 million was used to repurchase common stock. This more than offset $3.7 million of cash provided by increased deposit balances. At March 31, 2012, the Company had immediately available $149 million of overnight borrowing capacity at the FHLB and $39 million of unsecured federal funds lines with correspondent banks.

The holding company had $15.9 million of cash, short-term investments, and securities at March 31, 2012, which was up by $560,000 from the year-end 2011 total. Additionally, dividend payments from our subsidiaries can also provide ongoing cash to the holding company. At March 31, 2012, our subsidiary Bank had $7.0 million of cash available for immediate dividends to the holding company under the applicable regulatory formulas. As such, the holding company has strong liquidity to meet its trust preferred debt service requirements and preferred stock dividends, which approximate $2.1 million annually.

.....CAPITAL RESOURCES . The Company meaningfully exceeds all regulatory capital ratios for each of the periods presented and is considered well capitalized. The asset leverage ratio was 11.83% and the risk based capital ratio was 17.22% at March 31, 2012. The Company s tangible common equity to tangible assets ratio was 8.24% at March 31, 2012. We anticipate that we will maintain our strong capital ratios throughout 2012. Capital generated from earnings will be utilized to pay the SBLF preferred dividend and continue the common stock buyback program. During the first quarter of 2012, we repurchased 455,500 shares of our common stock at a total cost of $1,085,000 or an average price of $2.38 per share.

The Company also announced on April 19, 2012 that it Board of Directors approved an increase in the size of its previously announced common stock repurchase program. The Company can now repurchase an additional 5% or approximately 1,007,000 shares of its outstanding common stock. The shares may be purchased in open market, negotiated, or block transactions and the program may be suspended or discontinued at any time. As part of this

expanded common stock buyback program, on April 20, 2012 we repurchased 1,045,000 shares of our common stock at $2.47 per share for $2,581,000 in the aggregate from an institutional shareholder. We expect that this transaction will have an accretive impact on both book value and tangible book value per share.

.....INTEREST RATE SENSITIVITY..... The following table presents an analysis of the sensitivity inherent in the Company s net interest income and market value of portfolio equity. The interest rate scenarios in the table compare the Company s base forecast, which was prepared using a flat interest rate scenario, to scenarios that reflect immediate interest rate changes of 100 and 200 basis points. Note that we suspended the 200 basis point downward rate shock since it has little value due to the absolute low level of interest rates. Each rate scenario contains unique prepayment and repricing assumptions that are applied to the Company s existing balance sheet that was developed under the flat interest rate scenario.

Interest Rate Scenario	Variability of Net Interest Income	Change in Market Value of Portfolio Equity
200bp increase	5.4%	21.2%
100bp increase	4.0	13.7
100bp decrease	(6.3)	(16.3)

The variability of net interest income is negative in the 100 basis point downward rate scenario as the Company has more exposure to assets repricing downward to a greater extent than liabilities due to the absolute low level of interest rates with the fed funds rate currently at 0.25%. The variability of net interest income is positive in the upward rate shocks due to the Company s short duration investment securities portfolio and scheduled repricing of loans now tied to LIBOR. Also, the Company expects that it will not have to reprice its core deposit accounts up as quickly when interest rates rise. The market value of portfolio equity increases in the upward rate shocks due to the improved value of the Company s core deposit base. Negative variability of market value of portfolio equity occurs in the downward rate shock due to a reduced value for core deposits.

.....OFF BALANCE SHEET ARRANGEMENTS .. The Company incurs off-balance sheet risks in the normal course of business in order to meet the financing needs of its customers. These risks derive from commitments to extend credit and standby letters of credit. Such commitments and standby letters of credit involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. The Company had various outstanding commitments to extend credit approximating $137.2 million and standby letters of credit of $10.2 million as of March 31, 2012. The Company s exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Company uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending.

.....CRITICAL ACCOUNTING POLICIES AND ESTIMATES..... The accounting and reporting policies of the Company are in accordance with Generally Accepted Accounting Principles and conform to general practices within the banking industry. Accounting and reporting policies for the allowance for loan losses, goodwill, income taxes, and investment securities are deemed critical because they involve the use of estimates and require significant management judgments. Application of assumptions different than those used by the Company could result in material changes in the Company s financial position or results of operation.

Account Allowance for Loan Losses

Balance Sheet Reference Allowance for Loan Losses

Income Statement Reference Provision for Loan Losses

Description

The allowance for loan losses is calculated with the objective of maintaining reserve levels believed by management to be sufficient to absorb estimated probable credit losses. Management s determination of the adequacy of the allowance is based on periodic evaluations of the credit portfolio and other relevant factors. However, this quarterly evaluation is inherently subjective as it requires material estimates, including, among others, likelihood of customer default, loss given default, exposure at default, the amounts and timing of expected future cash flows on impaired loans, value of collateral, estimated losses on consumer loans and residential mortgages, and general amounts for historical loss experience. This process also considers economic conditions, uncertainties in estimating losses and inherent risks in the various credit portfolios. All of these factors may be susceptible to significant change. Also, the allocation of the allowance for credit losses to specific loan pools is based on historical loss trends and management s judgment concerning those trends.

Commercial and commercial real estate loans are the largest category of credits and the most sensitive to changes in assumptions and judgments underlying the determination of the allowance for loan loss. Approximately $11.0 million, or 80%, of the total allowance for credit losses at March 31, 2012 has been allocated to these two loan categories. This allocation also considers other relevant factors such as actual versus estimated losses, economic trends, delinquencies, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies and trends in policy, financial information and documentation exceptions. To the extent actual outcomes differ from management estimates, additional provision for credit losses may be required that would adversely impact earnings in future periods.

Account Goodwill and core deposit intangibles

Balance Sheet Reference Goodwill and core deposit intangibles

Income Statement Reference Goodwill impairment and amortization of core deposit Intangibles

Description

The Company considers our accounting policies related to goodwill and core deposit intangibles to be critical because the assumptions or judgment used in determining the fair value of assets and liabilities acquired in past acquisitions are subjective and complex. As a result, changes in these assumptions or judgment could have a significant impact on our financial condition or results of operations.

The fair value of acquired assets and liabilities, including the resulting goodwill, was based either on quoted market prices or provided by other third party sources, when available. When third party information was not available, estimates were made in good faith by management primarily through the use of internal cash flow modeling techniques. The assumptions that were used in the cash flow modeling were subjective and are susceptible to significant changes. The Company routinely utilizes the services of an independent third party that is regarded within the banking industry as an expert in valuing core deposits to monitor the ongoing value and changes in the Company s core deposit base. These core deposit valuation updates are based upon

specific data provided from statistical analysis of the Company s own deposit behavior to estimate the duration of these non-maturity deposits combined with market interest rates and other economic factors.

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. The Company s goodwill relates to value inherent in the banking and wealth management business, and the value is dependent upon the Company s ability to provide quality, cost-effective services in the face of free competition from other market participants on a regional basis. This ability relies upon continuing investments in processing systems, the development of value-added service features and the ease of use of the Company s services. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted and the loyalty of the Company s deposit customer base over a longer time frame. The quality and value of a Company s assets is also an important factor to consider when performing goodwill impairment testing. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective value added services over sustained periods can lead to impairment of goodwill.

Goodwill which has an indefinite useful life is tested for impairment at least annually and written down and charged to results of operations only in periods in which the recorded value is more than the estimated fair value. As of March 31, 2012, goodwill was not considered impaired; however, deteriorating economic conditions could result in impairment, which could adversely affect earnings in future periods.

Core deposit intangibles that have a finite life are amortized over their useful life. As of March 31, 2012, all core deposit intangibles for the Company had been fully amortized.

Account Income Taxes

Balance Sheet Reference Deferred Tax Asset and Current Taxes Payable

Income Statement Reference Provision for Income Taxes

Description

The provision for income taxes is the sum of income taxes both currently payable and deferred. The changes in deferred tax assets and liabilities are determined based upon the changes in differences between the basis of assets and liabilities for financial reporting purposes and the basis of assets and liabilities as measured by the enacted tax rates that management estimates will be in effect when the differences reverse. This income tax review is completed on a quarterly basis.

In relation to recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of tax differences, make certain assumptions regarding whether tax differences are permanent or temporary and the related time of expected reversal. Also, estimates are made as to whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances. As of March 31, 2012, we believe that all of the deferred tax assets recorded on our balance sheet will ultimately be recovered and that no valuation allowances were needed.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

Account Investment Securities

Balance Sheet Reference Investment Securities

Income Statement Reference Net realized gains (losses) on investment securities

Description

Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security s performance, the creditworthiness of the issuer and the Company s intent and ability to hold the security to recovery. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the Consolidated Statements of Operations. At March 31, 2012, the vast majority of the unrealized losses in the available-for-sale security portfolio were comprised of securities issued by government agencies, the US Treasury or government sponsored agencies. The Company believes the unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase. 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 we 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.

.....FORWARD LOOKING STATEMENT.....

THE STRATEGIC FOCUS:

The challenge for the future is to improve earnings performance to peer levels through a disciplined focus on community banking and improving the profitability of our Trust Company. In accordance with our strategic plan, AmeriServ will maintain its focus as a community bank delivering banking and trust services to the best of our ability. This Company will not succumb to the lure of quick fixes and fancy financial gimmicks. It is our plan to continue to build AmeriServ into a potent banking force in this region and in this industry. Our focus encompasses the following:

Customer Service it is the existing and prospective customer that AmeriServ must satisfy. This means good products and fair prices. But it also means quick response time and professional competence. It means speedy problem resolution and a minimizing of bureaucratic frustrations. AmeriServ is training and motivating its staff to meet these standards.

Revenue Growth   It is necessary for AmeriServ to focus on growing revenues. This means loan growth, deposit growth and fee growth. It also means close coordination between all customer service areas so as many revenue producing products as possible can be presented to existing and prospective customers. The Company s Strategic Plan contains action plans in each of these areas particularly on increasing loans through the opening of several loan production offices. There will be a particular focus on small business commercial lending so that we can reduce the interest rate paid on our SBLF preferred stock. An examination of the peer bank database provides ample proof that a well executed community banking business model can generate a reliable and rewarding revenue stream.

Expense Rationalization   AmeriServ Financial remains focused on trying to rationalize expenses. This has not been a program of broad based cuts, but has been targeted so AmeriServ stays strong but spends less. However, this initiative takes on new importance because it is critical to be certain that future expenditures are directed to areas that are playing a positive role in the drive to improve revenues.

This Form 10-Q contains various forward-looking statements and includes assumptions concerning the Company s beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, operations, future results, and prospects, including statements that include the words may, could, should, suggest, would, believe, expect, anticipate, estimate, intend, plan or similar expressions. These forwar are based upon current expectations and are subject to risk and uncertainties. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary statement identifying important factors (some of which are beyond the Company s control) which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

Such factors include the following: (i) the effect of changing regional and national economic conditions; (ii) the effects of trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System; (iii) significant changes in interest rates and prepayment speeds; (iv) inflation, stock and bond market, and monetary fluctuations; (v) credit risks of commercial, real estate, consumer, and other lending activities; (vi) changes in federal and state banking and financial services laws and regulations; (vii) the presence in the Company s market area of competitors with greater financial resources than the Company; (viii) the timely development of competitive new products and services by the Company and the acceptance of those products and services by customers and regulators (when required); (ix) the willingness of customers to substitute competitors products and services for those of the Company and vice versa; (x) changes in consumer spending and savings habits; (xi) unanticipated regulatory or judicial proceedings; and (xii) other external developments which could materially impact the Company s operational and financial performance.

The foregoing list of important factors is not exclusive, and neither such list nor any forward-looking statement takes into account the impact that any future acquisition may have on the Company and on any such forward-looking statement.

Item 3.....QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK..... The Company manages market risk, which for the Company is primarily interest rate risk, through its asset liability management process and committee, see further discussion in Interest Rate Sensitivity section of the M.D. & A.

Item 4.....CONTROLS AND PROCEDURES..... (a) Evaluation of Disclosure Controls and Procedures. The Company s management carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and the operation of the Company s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2012, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer along with the Chief Financial Officer concluded that the Company s disclosure controls and procedures as of March 31, 2012, are effective.

(b) Changes in Internal Controls. There have been no changes in AmeriServ Financial Inc. s internal controls over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

There are no material proceedings to which the Company or any of our subsidiaries are a party or by which, to the Company s knowledge, we, or any of our subsidiaries, are threatened. All legal proceedings presently pending or threatened against the Company or our subsidiaries involve routine litigation incidental to our business or that of the subsidiary involved and are not material in respect to the amount in controversy.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

Following are the Company s monthly common stock purchases during the first quarter of 2012. All shares are repurchased under Board of Directors authorization. In November 2011, the Board authorized a new program to repurchase 1.1 million shares. There is no prescribed termination date for this program.

Period	Total number of shares purchased as part of publicly announced plans or programs	Average price paid per share	Maximum number of shares that may be purchased under the plans or programs
January 2012	134,200	$ 2.29	638,400
February 2012	308,500	2.41	329,900
March 2012	12,800	2.71	317,100
Total	455,500	$ 2.38	

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Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

3.1	Amended and Restated Articles of Incorporation as amended through August 11, 2011, exhibit 3.1 to the Registration Statement on Form S-8 (File No. 333-176869) filed on September 16, 2011.
3.2	Bylaws, as amended and restated on December 17, 2009, Exhibit 3.2 to the Form 8-K filed December 23, 2009.
15.1	Report of S.R. Snodgrass, A.C. regarding unaudited interim financial statement information.
15.2	Awareness Letter of S.R. Snodgrass, A.C.
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101	The following information from AMERISERV FINANCIAL, INC. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, formatted in XBRL (eTensible Business Reporting Language): (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Operations (unaudited), (iii) Consolidated Statements of Cash Flows (unaudited), and (iv) Notes to the Consolidated Financial Statements (unaudited).

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

AmeriServ Financial, Inc.
Registrant

Date: May 9, 2012

/s/ Glenn L. Wilson
Glenn L. Wilson
President and Chief Executive Officer

Date: May 9, 2012

/s/ Jeffrey A. Stopko
Jeffrey A. Stopko
Executive Vice President and Chief Financial Officer