AMERICAN COMMUNITY BANCSHARES INC
Form 10-K/A
October 26, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 3)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

OR

¨ **TRANSITIONAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _______ to _______.

COMMISSION FILE NUMBER 000-30517

AMERICAN COMMUNITY BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

NORTH CAROLINA **(State or Other Jurisdiction of Incorporation or Organization)**	**56-2179531** **(I.R.S. Employer Identification No.)**
4500 CAMERON VALLEY PARKWAY, SUITE 150 **CHARLOTTE, NORTH CAROLINA** **(Address of Principal Executive Offices)**	**28211** **(Zip Code)**

Registrant s Telephone number, including area code: (704) 225-8444

Securities registered pursuant to Section 12(b) of the Act

NONE

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, PAR VALUE $1.00 PER SHARE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes x No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act from their obligations under those Sections.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ¨

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter. $81,460,000

Indicate the number of shares outstanding of each of the registrant s classes of Common Stock as of the latest practicable date. 7,003,068 shares of Common Stock outstanding as of March 28, 2007:

Documents Incorporated by Reference.

2007 Annual Meeting Proxy Statement

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EXPLANATORY NOTE:

This Amendment No. 3 to Form 10-K for the year ended December 31, 2006 (Form 10-K/A) has been filed by American Community Bancshares, Inc. (the Company) to present fully the items amended by Amendment No. 1 to the Company s Form 10-K for the year ended December 31, 2006, filed with the Commission on April 20, 2007 (Amendment No. 1). This amendment does not present any new or revised disclosure from that contained in Amendment No. 1 and does not amend, modify or update any information from that which has been previously disclosed in the Company s filings under the Securities Exchange Act of 1934. Whereas Amendment No. 1 presented only the specific passages or paragraphs containing amended disclosure, this Form 10-K/A presents those items in their entirety.

ITEM 5 MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

American Community Bancshares common stock is listed on the Nasdaq Global Market under the symbol ACBA . It began trading on this market on July 17, 2000. In addition, warrants to buy shares of American Community Bancshares included as a part of the units sold in April 2002 were also traded on the Nasdaq Global Market under the symbol ACBAW . The warrants entitled the holder to purchase one share of common stock at $10.50 per share and expired on April 30, 2005. At expiration of the warrants, 999,012 common shares were issued and total capital received was $10,489,626. There were 7,003,068 shares of our common stock outstanding at March 22, 2007 owned by approximately 2,500 shareholders. The table below lists the high and low prices at which trades were completed during each quarter indicated for our stock and warrants to buy stock and are adjusted to reflect our three-for-two stock split effective in the form of a 50% stock dividend in February 2006. In 2005 and 2006, the Company paid quarterly dividends in the amount of $0.05 per share.

		Sale Price			
	Dividends	Common Stock		Warrants	
	Paid	High	Low	High	Low
2006					
First Quarter	$ 0.05	$ 13.73	$ 12.14	$	$
Second Quarter	0.05	13.49	12.04		
Third Quarter	0.05	12.23	11.18		
Fourth Quarter	0.05	11.71	11.00		
2005					
First Quarter	$ 0.05	$ 9.53	$ 9.46	$ 4.50	$ 2.33
Second Quarter	0.05	11.53	11.33	2.67	2.33
Third Quarter	0.05	11.47	11.44		
Fourth Quarter	0.05	12.51	12.07		

See Item 12 of this report for disclosure regarding securities authorized for issuance and equity compensation plans required by Item 201(d) of Regulation S-K.

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Performance Graph

The following graph compares (i) the yearly change in the cumulative total stockholder return on the Company s common stock with (ii) the cumulative return of the Nasdaq Composite, and (iii) the Nasdaq Bank Stock Index. The graph assumes that the value of an investment in the Company s common stock and in each index was $100 on December 31, 2000, and that all dividends were reinvested. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

American Community Bancshares, Inc.

The information contained in the Total Return Performance Graph shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

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ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

AMERICAN COMMUNITY BANCSHARES, INC.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

American Community Bancshares, Inc.

Charlotte, North Carolina

We have audited the accompanying consolidated balance sheets of American Community Bancshares, Inc. and subsidiaries (the Company) as of December 31, 2006 and 2005 and the related consolidated statements of operations, comprehensive income, stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Community Bancshares, Inc. and subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of American Community Bancshares, Inc. s internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 28, 2007 expressed unqualified opinions on both management s assessment of the Company s internal control over financial reporting and the effectiveness of the Company s internal control over financial reporting.

Charlotte, North Carolina
March 28, 2007

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AMERICAN COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005

	2006	2005
	(Amounts in thousands)	
ASSETS		
Cash and due from banks	$ 19,950	$ 12,495
Interest-earning deposits with banks	17,295	4,454
Investment securities available for sale, at fair value (cost of $63,920 and $63,325 at December 31, 2006 and 2005, respectively)	63,018	62,127
Investment securities held to maturity, at cost (fair value approximates $2,192 and $2,173 at December 31, 2006 and 2005, respectively)	2,174	2,180
Loans	370,431	332,708
Allowance for loan losses	(5,628)	(4,331)
NET LOANS	364,803	328,377
Accrued interest receivable	2,938	2,432
Bank premises and equipment	9,105	9,660
Foreclosed real estate	195	386
Non-marketable equity securities, at cost	1,879	1,996
Goodwill	9,838	9,838
Other assets	3,463	2,726
TOTAL ASSETS	$ 494,658	$ 436,671
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits		
Demand noninterest-bearing	$ 61,735	$ 58,054
Savings	15,111	11,510
Money market and NOW	98,333	73,699
Time	225,958	202,138
TOTAL DEPOSITS	401,137	345,401
Borrowings	6,000	11,111
Securities sold under agreement to repurchase and federal funds purchased	15,473	11,733
Capital lease obligation	1,694	1,703
Accrued expenses and other liabilities	1,368	1,919
Junior subordinated deferrable interest debentures	13,918	13,918
TOTAL LIABILITIES	439,590	385,785
Stockholders Equity		
Preferred stock, no par value, 1,000,000 shares authorized; none issued		
Common stock, $1 par value, 25,000,000 shares authorized, 7,008,081 and 4,568,673 shares issued and outstanding at December 31, 2006 and 2005, respectively	7,008	4,569
Additional paid-in capital	37,637	38,882
Retained earnings	11,072	8,178
Accumulated other comprehensive loss	(649)	(743)
TOTAL STOCKHOLDERS EQUITY	55,068	50,886

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 494,658	$ 436,671

See accompanying notes to these consolidated financial statements.

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AMERICAN COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2006, 2005 and 2004

	2006	2005	2004
	(Amounts in thousands, except share and per share data)		
INTEREST INCOME			
Loans, including fees	$ 28,800	$ 23,062	$ 16,387
Investment securities:			
Taxable	2,702	2,051	1,618
Tax-exempt	288	178	122
Interest-earning deposits with banks	544	293	89
TOTAL INTEREST INCOME	32,334	25,584	18,216
INTEREST EXPENSE			
Money market, NOW and savings deposits	1,637	1,049	404
Time deposits	9,620	6,241	4,058
Borrowings	452	484	545
Securities sold under agreement to repurchase and federal funds purchased	523	301	292
Capital lease obligation	140	140	141
Junior subordinated debentures	1,149	965	780
TOTAL INTEREST EXPENSE	13,521	9,180	6,220
NET INTEREST INCOME	18,813	16,404	11,996
PROVISION FOR LOAN LOSSES	2,612	809	573
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	16,201	15,595	11,423
NON-INTEREST INCOME			
Service charges on deposit accounts	2,393	2,305	2,306
Mortgage banking operations	352	385	365
Accounts receivable financing	102	110	85
Gain on sale of investment securities	60	10	106
Gain on sale of assets	79	68	27
Rental income	99	94	80
Other	268	322	368
TOTAL NON-INTEREST INCOME	3,353	3,294	3,337
NON-INTEREST EXPENSE			
Salaries and employee benefits	6,474	5,739	4,860
Occupancy and equipment	2,261	2,150	1,755
Other	4,103	3,853	3,785
TOTAL NON-INTEREST EXPENSE	12,838	11,742	10,400
INCOME BEFORE INCOME TAXES	6,716	7,147	4,360
INCOME TAXES	2,440	2,639	1,617

NET INCOME	$ 4,276	$ 4,508	$ 2,743
NET INCOME PER COMMON SHARE			
Basic	$ .62	$ .71	$ .56
Diluted	$ .60	$ .66	$ .50
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	6,913,534	6,364,336	4,912,256
Diluted	7,171,413	6,819,523	5,513,361

See accompanying notes to these consolidated financial statements.

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AMERICAN COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2006, 2005 and 2004

	2006	**2005**	**2004**
	(Amounts in thousands)		
NET INCOME	$ 4,276	$ 4,508	$ 2,743
Other comprehensive income (loss):			
Securities available for sale:			
Unrealized holding gains/(losses) on available-for-sale securities	350	(1,018)	(208)
Tax effect	(133)	385	79
Reclassification adjustment for gains realized in income	(60)	(10)	(106)
Tax effect	23	3	41
Net of tax amount	180	(640)	(194)
Cash flow hedging activities:			
Unrealized holding losses on cash flow hedging activities	(139)		
Tax effect	53		
Reclassification adjustment for gains realized in income			
Tax effect			
Net of tax amount	(86)		
Total other comprehensive income (loss)	94	(640)	(194)
Total comprehensive income	$ 4,370	$ 3,868	$ 2,549

See accompanying notes to these consolidated financial statements.

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AMERICAN COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Years Ended December 31, 2006, 2005 and 2004

	Common stock Shares	Common stock Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders equity
	(Amounts in thousands, except share data)					
Balance, January 1, 2004	2,825,709	$ 2,826	$ 19,201	$ 2,071	$ 91	$ 24,189
Comprehensive income:						
Net income				2,743		2,743
Other comprehensive loss, net of tax					(194)	(194)
Total comprehensive income						2,549
Cash dividends of $.10 per share				(283)		(283)
Purchase of FNB Bancshares, Inc.	617,343	617	9,572			10,189
Common stock issued pursuant to:						
Exercise of stock options	34,997	35	175			210
Exercise of warrants	11,200	11	107			118
Balance, December 31, 2004	3,489,249	3,489	29,055	4,531	(103)	36,972
Comprehensive income:						
Net income				4,508		4,508
Other comprehensive loss, net of tax					(640)	(640)
Total comprehensive income						3,868
Cash dividends of $.20 per share				(861)		(861)
Common stock issued pursuant to:						
Exercise of stock options	91,612	92	443			535
Exercise of warrants	987,812	988	9,384			10,372
Balance, December 31, 2005	4,568,673	4,569	38,882	8,178	(743)	50,886
Comprehensive income:						
Net income				4,276		4,276
Other comprehensive income, net of tax					94	94
Total comprehensive income						4,370
Stock split effected in the form of a 50% stock dividend	2,284,567	2,284	(2,284)			
Cash dividends of $.20 per share				(1,382)		(1,382)
Shares repurchased	(23,700)	(24)	(239)			(263)
Expense recognized in connection with stock options			375			375
Common stock issued pursuant to:						
Exercise of stock options	178,541	179	733			912
Tax benefit from the exercise of stock options			170			170
Balance, December 31, 2006	7,008,081	$ 7,008	$ 37,637	$ 11,072	$ (649)	$ 55,068

See accompanying notes to these consolidated financial statements.

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AMERICAN COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2006, 2005 and 2004

	2006	2005	2004
	(Amounts in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 4,276	$ 4,508	$ 2,743
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,072	1,219	1,202
Provision for loan losses	2,612	809	573
Deferred income taxes	(899)	559	37
Gain on sale of investment securities	(60)	(10)	(106)
Loss on sale of foreclosed real estate	144	116	7
(Gain) loss on disposal of fixed assets	7		(27)
Recognition of hedge ineffectiveness	(10)		
Increase (decrease) in capital lease obligation	(9)	(8)	2
Equity compensation expense	375		
Change in assets and liabilities:			
Increase in accrued interest receivable	(506)	(735)	(320)
Decrease (increase) in other assets	(136)	(723)	633
Increase (decrease) in accrued expenses and other liabilities	(551)	268	35
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,315	6,003	4,779
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of securities available for sale	(13,299)	(25,574)	(22,300)
Purchases of securities held to maturity			(300)
Proceeds from sales of securities available for sale	3,909	2,801	10,837
Proceeds from maturities, calls and principal re-payments of securities available for sale	8,763	11,228	16,594
Net increase in loans from originations and repayments	(39,375)	(25,168)	(47,207)
Purchases of bank premises and equipment	(326)	(1,867)	(1,151)
Proceeds from sale of bank premises and equipment	6		149
Proceeds from sale of foreclosed real estate	384	365	89
Investment in non-marketable equity securities	(191)	(99)	(582)
Redemption of non-marketable equity securities	308	143	
Net cash disbursed in business combination			(2,707)
NET CASH USED BY INVESTING ACTIVITIES	(39,821)	(38,171)	(46,578)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in demand deposits	31,916	17,092	24,313
Net increase in time deposits	23,820	21,644	12,922
Proceeds from issuance of common stock	912	10,907	328
Repurchase of common stock	(263)		
Repayment of Federal Home Loan Bank advances	(5,111)	(1,667)	(2,667)
Excess tax benefits from stock options exercised	170		
Cash dividends paid on common stock	(1,382)	(861)	(283)
Net increase (decrease) in securities sold under agreement to repurchase and federal funds purchased	3,740	(14,030)	4,876
NET CASH PROVIDED BY FINANCING ACTIVITIES	53,802	33,085	39,489

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	20,296	917	(2,310)
CASH AND CASH EQUIVALENTS, BEGINNING	16,949	16,032	18,342
CASH AND CASH EQUIVALENTS, ENDING	$ 37,245	$ 16,949	$ 16,032

See accompanying notes to these consolidated financial statements.

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AMERICAN COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2006, 2005 and 2004

	2006	2005	2004
	(Amounts in thousands)		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Purchase of FNB Bancshares, Inc.			
Loans, net of reserves	$	$	$ (56,156)
Investment securities available for sale			(7,421)
Non-marketable equity securities			(416)
Bank premises and equipment			(3,071)
Deferred tax asset			(108)
Other assets acquired			(1,409)
Goodwill			(9,838)
Deposits			61,268
Securities sold under agreement to repurchase			1,220
Borrowings			2,000
Other liabilities assumed			1,035
Fair value of options exchanged			1,616
Issuance of stock			8,573
Net cash distributed in business combination	$	$	$ (2,707)
Cash paid during the year for:			
Interest	$ 13,725	$ 9,047	$ 6,046
Income taxes	3,992	1,572	1,169
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Transfer of loans to foreclosed assets	$ 337	$ 483	291
Change in unrealized gain on available-for-sale Securities and cash flow hedging activities, net of tax	(94)	(640)	(194)

See accompanying notes to these consolidated financial statements.

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AMERICAN COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2006, 2005 and 2004

NOTE 1 ORGANIZATION AND OPERATIONS

In April 2000, American Community Bancshares, Inc. (Bancshares) was formed as a holding company for American Community Bank. Upon formation, one share of Bancshares $1 par value common stock was exchanged for each of the then outstanding 1,492,063 shares of American Community Bank s $5 par value common stock. Bancshares currently has no material operations and conducts no business on its own other than owning its wholly owned subsidiary, American Community Bank.

American Community Bank (American Community) was incorporated on November 13, 1998 and began banking operations on November 16, 1998. The Bank is engaged in general commercial and retail banking in Union and Mecklenburg Counties of North Carolina and Cherokee and York Counties of South Carolina, operating under the banking laws of North Carolina and the rules and regulations of the Federal Deposit Insurance Corporation and the North Carolina Commissioner of Banks. The Bank undergoes periodic examinations by those regulatory authorities.

First National Bank of the Carolinas (First National) commenced operations on October 18, 1996 and was purchased by Bancshares on April 15, 2004. First National was merged into American Community on April 1, 2005.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of American Community Bancshares, Inc. and American Community Bank, together referred to herein as the Company. All significant inter-company transactions and balances are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses.

Cash Equivalents

For the purpose of presentation in the statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet captions cash and due from banks and interest-earning deposits with banks.

Investment Securities

Investment securities for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity. Available-for-sale securities are reported at fair value and consist of securities not classified as trading securities or as held-to-maturity securities. Unrealized holding gains and losses on available-for-sale securities, net of deferred income taxes, are reported as a net amount in other comprehensive income. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary would result in write-downs of the individual securities to their fair value. Such write-downs would be included in earnings.

Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

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AMERICAN COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2006, 2005 and 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest on loans is accrued on the unpaid principal balance outstanding. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. When doubt exists as to collectability of a loan (typically 90 days delinquent or impaired), the loan is placed on non-accrual status. When a loan is placed on non-accrual status, interest accrued prior to the judgment of uncollectability is charged to income. Loans are returned to an accruing status only as payments are received and when collection of all principal and interest is no longer in doubt. Payments received on such non-accrual loans are applied first to outstanding loan amounts and next as a recovery of lost interest. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

Allowance for Loan Losses

The allowance for loan losses is established as probable losses are estimated to have occurred through a provision for loan losses charged to earnings. The provision for loan losses is based upon management s best estimate of the amount needed to maintain the allowance for loan losses at an adequate level. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management s periodic review of the collectibility of the loans in light of the current status of the portfolio, historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower s ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. Management segments the loan portfolio by loan type in considering each of the aforementioned factors and their impact upon the level of the allowance for loan losses. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions used in making the evaluations. In addition, regulatory examiners may require American Community Bank to recognize changes to the allowance for loan losses based on their judgments about information available to them at the time of their examination.

Loans are considered impaired when it is probable that all amounts due under the contractual terms of the loan will not be collected. The measurement of impaired loans is generally based on the present value of expected future cash flows discounted at the historical effective interest rate, or upon the fair value of the collateral if the loan is collateral dependent. If the recorded investment in the loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses.

Foreclosed Real Estate

Real estate acquired through, or in lieu of, loan foreclosure is held for sale and is initially recorded at fair value less estimated cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to 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. Revenue and expenses from operations are included in other expenses.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the shorter of the estimated useful lives of the assets or, for those assets leased under capital leases, the lease term. Estimated useful lives are 35-40 years for buildings and 3 to 7 years for furniture and equipment. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Repairs and maintenance costs are charged to operations as incurred, and additions and improvements to premises and equipment are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts and any gains or losses are reflected in current operations.

Non-marketable equity securities

As a requirement for membership, the Bank invests in stock of the Federal Home Loan Bank of Atlanta (FHLB), Bankers Bank, and the Federal Reserve Bank of Richmond. In addition, the Bank also invests in other equity investments for which the stock is not publicly traded. These investments are carried at cost.

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AMERICAN COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2006, 2005 and 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets

The Company s acquisition of FNB Bancshares, Inc. generated goodwill of $9,838,173 and core deposit intangible assets of $854,329. The Company uses a non-amortization approach to account for purchased goodwill. Intangible assets with finite useful lives are amortized over their useful lives. The carrying value of the core deposit intangible asset totaled $565,079, net of amortization of $289,250, as of December 31, 2006. This intangible asset was determined by management to meet the criteria for recognition apart from goodwill and to have a finite life of 8 years. Amortization expense associated with the core deposit intangible asset was $106,800, $106,800, and $75,650 for the years ended December 31, 2006, 2005, and 2004, respectively. In accordance with the Company s estimate of approximate lives of the acquired deposit relationships, an 8 year straight-line amortization schedule has been established for the core deposit intangible assets. Projected amortization expense for the years ended December 31, 2007, 2008, 2009, 2010 and 2011 is $106,800 per year.

Under generally accepted accounting principles, the Company reviews its amortizable intangible assets for impairment when events or changes in circumstances indicated the carrying value may not be recoverable. Goodwill is required to be tested for impairment annually as of April 15th and on an interim basis when events or circumstances change. Management completed the annual goodwill impairment tests as of April 15, 2006, which indicated that no impairment had occurred. Management does not believe that events and circumstances subsequent to that date indicated that goodwill has been impaired.

Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized.

Stock Compensation Plans

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), Share-Based Payment , (SFAS No. 123R) which was issued by the FASB in December 2004. SFAS No. 123R revises SFAS No. 123 Accounting for Stock Based Compensation , and supersedes APB No. 25, Accounting for Stock Issued to Employees , (APB No. 25) and its related interpretations. SFAS No. 123R requires recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). SFAS No. 123R also requires measurement of the cost of employee services received in exchange for an award based on the grant date fair value of the award. SFAS No. 123R also amends SFAS No. 95 Statement of Cash Flows, to require that excess tax benefits be reported as financing cash inflows, rather than as a reduction of taxes paid, which is included within operating cash flows.

The Company adopted SFAS No. 123R using the modified prospective application as permitted under SFAS No. 123R. Accordingly, prior period amounts have not been restated. Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Prior to the adoption of SFAS No. 123R, the Company used the intrinsic value method as prescribed by APB No. 25 and thus recognized no compensation expense for options granted with exercise prices equal to the fair market value of the Company s common stock on the date of grant.

Derivative Financial Instruments and Hedging Activities

In the normal course of business, the Company enters into derivative contracts to manage interest rate risk by modifying the characteristics of the related balance sheet instruments in order to reduce the adverse effect of changes in interest rates. All derivative financial instruments are recorded at fair value in the financial statements.

On the date a derivative contract is entered into, the Company designates the derivative as a fair value hedge, a cash flow hedge, or a trading instrument. Changes in the fair value of instruments used as fair value hedges are accounted for in the earnings of the period simultaneous with accounting for the fair value change of the item being hedged. Changes in the fair value of the effective portion of cash flow hedges are accounted for in other comprehensive income rather than earnings. Changes in fair value of instruments that are not intended as a hedge are accounted for in the earnings of the period of the change.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

If a derivative instrument designated as a fair value hedge is terminated or the hedge designation removed, the difference between a hedged item s then carrying amount and its face amount is recognized into income over the original hedge period. Likewise, if a derivative instrument designated as a cash flow hedge is terminated or the hedge designation removed, related amounts accumulated in other accumulated comprehensive income are reclassified into earnings over the original hedge period during which the hedged item affects income.

The Company formally documents all hedging relationships, including an assessment that the derivative instruments are expected to be highly effective in offsetting the changes in fair values or cash flows of the hedged items.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and hedging activities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. The Company s components of accumulated other comprehensive income are unrealized gains (losses) on available-for-sale securities and unrealized gains (losses) on hedging activities.

At December 31, 2006, accumulated other comprehensive income consisted of net unrealized gains on securities available for sale of $563,000 and net unrealized losses on derivatives of $86,000. At December 31, 2005, accumulated other comprehensive loss consisted of net unrealized losses on securities available for sale of $743,000.

Per Share Results

Basic and diluted net income per common share have been computed by dividing net income for each period by the weighted average number of shares of common stock outstanding during each period after retroactively adjusting for the stock dividends.

Basic earnings per common share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and warrants and are determined using the treasury stock method.

Basic and diluted net income per share have been computed based upon net income as presented in the accompanying statements of operations divided by the weighted average number of common shares outstanding or assumed to be outstanding as summarized below:

	2006	**2005**	**2004**
Weighted average number of common shares used in computing basic net income per share	6,913,534	6,364,336	4,912,256
Effect of dilutive stock options and warrants	257,879	455,187	601,105
Weighted average number of common shares and dilutive potential common shares used in computing diluted net income per share	7,171,413	6,819,523	5,513,361

For the year ended December 31, 2006, there were 93,000 options that were anti-dilutive since the exercise price exceeded the average market price for the year. For the years ended December 31, 2005 and 2004, there were no options or warrants that were anti-dilutive for the year. Anti-dilutive options are omitted from the calculation of diluted earnings per share.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segment Reporting

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information,* requires management to report selected financial and descriptive information about reportable operating segments. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. Generally, disclosures are required for segments internally identified to evaluate performance and resource allocation. In all material respects, the Company s operations are entirely within the commercial banking segment, and the consolidated financial statements presented herein reflect the results of that segment. The Company has no foreign operations or customers.

Recent Accounting Pronouncements

SFAS 156

In the first quarter of 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 156, Accounting or Servicing of Financial Assets (SFAS No. 156). SFAS No. 156 sets accounting requirements for separately recognizing a servicing asset or a servicing liability when a company undertakes an obligation to service a financial asset under a servicing contract in certain situations. Such servicing assets or servicing liabilities are required to be initially measured at fair value, if practicable. SFAS No. 156 also allows an entity to choose one of two methods when subsequently measuring its servicing assets and servicing liabilities: (I) the amortization method or (2) the fair value measurement method. The amortization method existed under Statement 140 and remains unchanged in (1) allowing entities to amortize their servicing assets or servicing liabilities in proportion to and over the period of estimated net servicing income or net servicing loss and (2) requiring the assessment of those servicing assets or servicing liabilities for impairment or increased obligation based on fair value at each reporting date. The fair value measurement method allows entities to measure their servicing assets or servicing liabilities at fair value each reporting date and report changes in fair value in earnings in the period the change occurs. SFAS No. 156 permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights upon initial adoption, provided certain criteria are met The Company adopted SFAS No. 156 in the first quarter of 2007 and does not expect the adoption of SFAS No. 156 to have a material impact on its financial position and results of operations, including the valuation methods and support for the assumptions that underlie the valuation.

FIN 48

In July 2006, the FASB issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize in its financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of the Company s 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The adoption of FIN 48 will not have a material impact on the consolidated financial statements.

FAS 157

In September 2006, the Financial Accounting Standards Board issued FASB Statement No. 157, Fair Value Measurements (FASB No. I57), which enhances existing guidance for measuring assets and liabilities using fair value and requires additional disclosure about the use of fair value for measurement. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company will be required to adopt SFAS No. 157 in the first quarter of 2008, and is currently evaluating the impact of the adoption of SFAS No. 157 on its financial position and results of operations, including the valuation methods and support for the assumptions that underlie the valuation.

SAB 108

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in the Current Year Financial Statements (SAB No. 108). SAB No. 108 addresses the diversity in practice by regiments when quantifying the effect of an error on the financial statements. SAB No. 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements and is effective for annual periods ending after November 15, 2006. The Company adopted the provisions of SAB No. 108 effective December 31, 2006. The adoption of SAB 108 did not have a material impact on the consolidated financial statements.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain amounts in the 2005 and 2004 consolidated financial statements have been reclassified to conform to the 2006 presentation. The reclassifications had no effect on net income or stockholders equity as previously reported.

NOTE 3 INVESTMENT SECURITIES

The following is a summary of the securities portfolio by major classification at December 31, 2006 and 2005:

	2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U. S. Government agencies	$ 20,201,650	$ 43,825	$ 116,431	$ 20,129,043
Mortgage-backed securities	37,047,130	10,303	835,828	36,221,606
State and municipal bonds	6,264,804	32,437	42,130	6,255,111
	63,513,584	86,565	994,389	62,605,760
Marketable equity securities	406,808	5,055		411,863
Total securities available for sale	$ 63,920,392	$ 91,620	$ 994,389	$ 63,017,623

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity:				
State and municipal bonds	$ 2,174,255	$ 17,789	$ 174	$ 2,191,870
Total securities held to maturity	$ 2,174,255	$ 17,789	$ 174	$ 2,191,870

	2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U. S. Government agencies	$ 15,769,977	$ 21,373	$ 129,351	$ 15,661,999
Mortgage-backed securities	42,791,059	15,899	1,082,183	41,724,775
State and municipal bonds	4,357,064	17,361	44,081	4,330,344
	62,918,100	54,633	1,255,615	61,717,118

Marketable equity securities	406,808	3,340		410,148
Total securities available for sale	$ 63,324,908	$ 57,973	$ 1,255,615	$ 62,127,266

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity:				
State and municipal bonds	$ 2,180,222	$ 7,634	$ 14,595	$ 2,173,261
Total securities held to maturity	$ 2,180,222	$ 7,634	$ 14,595	$ 2,173,261

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NOTE 3 INVESTMENT SECURITIES (Continued)

The amortized cost and fair values of securities (excluding marketable equity securities) at December 31, 2006 by contractual maturity are shown below. Actual expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

	At December 31, 2006	
	Amortized Cost	Fair Value
Due within one year	$ 659,379	$ 651,173
Due after one year through five years	14,824,489	14,718,878
Due after five years through ten years	15,035,349	14,845,091
Due after ten years	35,168,622	34,582,488
Total	$ 65,687,839	$ 64,797,630

For purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal prepayments.

For the year ended December 31, 2006, proceeds from sales of investment securities available for sale amounted to $3,908,955. Gross realized gains in 2006 from these sales amounted to $60,072. For the year December 31 2005 and 2004, proceeds from sales of investment securities available for sale amounted to $2,801,183 and $10,837,401 respectively. Gross realized gains in 2005 and 2004 from these sales amounted to $10,200 and $106,290, respectively.

Available for sale securities, consisting of US government agencies, mortgage-backed securities and state and municipal bonds, with carrying values of $6,253,410 and $4,832,475 at December 31, 2006 and 2005, respectively, were pledged to secure public monies on deposit as required by law. Available for sale securities, consisting of US government agencies and mortgage-backed securities, with carrying values of $17,272,040 and $10,474,560 were pledged to secure securities sold under agreements to repurchase at December 31, 2006 and 2005, respectively.

The following tables show investment gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2006 and 2005. The unrealized losses relate to debt securities that have incurred fair value reductions due to higher market interest rates since the securities were purchased. The unrealized losses are not likely to reverse unless and until market interest rates decline to the levels that existed when the securities were purchased. Since none of the unrealized losses relate to the marketability of the securities or the issuer s ability to honor redemption obligations, none of the securities are deemed to be other than temporarily impaired.

	2006					
	Less Than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Securities available for sale:						
U.S. government agencies	$ 5,919,809	$ 26,768	$ 9,015,999	$ 89,663	$ 14,935,808	$ 116,431
Mortgage-backed securities	3,321,711	3,472	30,906,519	832,356	34,228,230	835,828
State and municipal bonds	394,027	10,973	1,853,324	31,157	2,247,351	42,130
Held to maturity:						

State and municipal bonds	238,661	174			238,661	174
Total temporarily impaired securities	$ 9,874,208	$ 41,387	$ 41,775,842	$ 953,176	$ 51,650,051	$ 994,563

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NOTE 3 INVESTMENT SECURITIES (Continued)

	2005					
	Less Than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Securities available for sale:						
U.S. government agencies	$ 12,246,249	$ 103,701	$ 974,350	$ 25,650	$ 13,220,599	$ 129,351
Mortgage-backed securities	15,800,761	353,295	23,460,919	728,888	39,261,680	1,082,183
State and municipal bonds	3,168,349	44,081			3,168,349	44,081
Held to maturity:						
State and municipal bonds	1,412,188	14,595			1,412,188	14,595
Total temporarily impaired securities	$ 32,627,547	$ 515,672	$ 24,435,269	$ 754,538	$ 57,062,816	$ 1,270,210

NOTE 4 NON-MARKETABLE EQUITY SECURITIES CARRIED AT COST

The aggregate cost of the Company s cost method investments totaled $1,879,074 at December 31, 2006. Investments with an aggregate cost of $652,738 were not evaluated for impairment because (a) the Company did not estimate the fair value of those investments in accordance with paragraphs 14 and 15 of Statement 107 and (b) the Company did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of those investments. Of the remaining $1,226,336 of investments, securities in the Federal Home Loan Bank and The Bankers Bank amounted to $1,142,100 and $84,236, respectively, at December 31, 2006. Because of the redemption provisions of issuers, the Company estimated that the fair value equaled or exceeded the cost of these investments and the investments were not impaired.

NOTE 5 LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Following is a summary of loans at December 31, 2006 and 2005:

	2006		2005	
	Amount	Percent	Amount	Percent
Real estate mortgage loans:				
1-4 family	$ 26,896,668	7.26%	$ 28,933,026	8.70%
Commercial mortgage	70,584,938	19.05%	84,693,502	25.45%
Construction/development	77,004,824	20.78%	44,036,858	13.24%
Home equity lines of credit	24,387,694	6.58%	27,732,430	8.33%
Commercial and industrial loans	126,602,767	34.16%	97,196,672	29.21%
Loans to individuals	36,782,098	9.93%	35,941,401	10.80%
Lease financing, net	8,316,062	2.24%	14,193,124	4.27%
Subtotal	370,575,051	100.00%	332,727,013	100.00%
Allowance for loan losses	(5,628,170)		(4,331,154)	
Net unamortized deferred costs	(144,127)		(19,368)	

Total	$ 364,802,754	$ 328,376,491

Loans are primarily made in Union and Mecklenburg Counties of North Carolina and Cherokee and York Counties of South Carolina. Real estate loans can be affected by the condition of the local real estate market. Commercial and installment loans can be affected by the local economic conditions.

At December 31, 2006 and 2005, respectively, there were $291,362 and $1,402,001 of loans past due 90 days or more which were still accruing interest. Impaired loans which aggregated $1,914,839 and $528,828 and had related allowances for loan losses of $1,134,875 and $296,095 at December 31, 2006 and 2005, respectively, consisted primarily of non-accrual loans and leases. The average recorded investment in impaired loans during the years ended December 31, 2006 and 2005 was $1,425,121 and $475,932, respectively. Non-accrual loans did not materially affect interest income for the years ended December 31, 2006, 2005 and 2004.

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NOTE 5 LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

The Company has granted loans to certain directors and executive officers of the Bank and their related interests. Such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other borrowers and, in management s opinion, do not involve more than the normal risk of collectibility. All loans to directors and executive officers or their interests are submitted to the Board of Directors for approval. A summary of loans to directors, executive officers and their related interests follows:

Loans to directors and officers as a group at January 1, 2006	$ 9,974,764
Disbursements during the year ended December 31, 2006	841,055
Amounts collected during the year ended December 31, 2006	(8,215,534)
Loans to directors and officers as a group at December 31, 2006	$ 2,600,285

At December 31, 2006, the Company had pre-approved but unused lines of credit totaling $906,912 to directors, executive officers and their related interests.

An analysis of the allowance for loan losses follows:

	2006	2005	2004
Balance at beginning of year	$ 4,331,154	$ 3,487,548	$ 2,528,825
Provision charged to operations	2,612,232	809,248	573,502
Charge-offs	1,349,709	80,848	339,980
Recoveries	(34,493)	(115,206)	(40,124)
Net charge-offs (recoveries)	1,315,216	(34,358)	299,856
Allowance acquired from First National merger			685,077
Balance at end of year	$ 5,628,170	$ 4,331,154	$ 3,487,548

NOTE 6 BANK PREMISES AND EQUIPMENT

Following is a summary of bank premises and equipment at December 31, 2006 and 2005:

	2006	2005
Land	$ 1,667,740	$ 1,667,740
Buildings and leasehold improvements	7,129,483	7,129,445
Furniture and equipment	3,894,801	4,029,610

	12,692,024	12,826,795
Accumulated depreciation and amortization	(3,586,579)	(3,166,898)
Total	$ 9,105,445	$ 9,659,897

Depreciation and amortization expense amounting to $867,768, $873,658 and $769,584 for the years ended December 31, 2006, 2005 and 2004, respectively, is included in occupancy and equipment expense.

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AMERICAN COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

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NOTE 7 DEPOSITS

Time deposits in denominations of $100,000 or more were $121,900,815 and $114,102,020 at December 31, 2006 and 2005, respectively. Brokered deposits totaled $8,628,000 and $19,418,560 at December 31, 2006 and 2005, respectively.

At December 31, 2006, the scheduled maturities of certificates of deposit were as follows:

	Less than $100,000	$100,000 or more	Total
2007	$ 90,683,043	$ 103,696,678	$ 194,379,721
2008	9,325,342	8,877,001	18,202,343
2009	2,349,755	5,928,135	8,277,890
2010	1,296,586	3,094,153	4,390,739
2011	402,503	304,848	707,351
Thereafter			
Total	$ 104,057,229	$ 121,900,815	$ 225,958,044

NOTE 8 BORROWINGS

Borrowings consist of advances from the Federal Home Loan Bank of Atlanta, securities sold under agreements to repurchase, federal funds purchased, and obligations under a capitalized lease for the Bank s main office facility. At December 31, 2006 and 2005, Federal Home Loan Bank advances were as follows:

2006	Call Feature	Amount	Rate
Due on July 16, 2012	Callable quarterly	$ 1,000,000	3.90% Fixed
Due on February 25, 2013	Callable quarterly	5,000,000	3.45% Fixed
Total FHLB borrowings/ weighted average rate		$ 6,000,000	3.53%

2005	Call Feature	Amount	Rate
Due on February 24, 2006	None	$ 111,111	2.16% Fixed
Due on December 19, 2011	Callable by FHLB on December 19, 2006	5,000,000	4.85% Fixed
Due on July 16, 2012	Callable by FHLB on January 18, 2005	1,000,000	3.90% Fixed
Due on February 25, 2013	Callable by FHLB on February 25, 2005	5,000,000	3.45% Fixed
Total FHLB borrowings/weighted average rate		$ 11,111,111	4.11%

Pursuant to a collateral agreement with the FHLB, advances are collateralized by all the Company s FHLB stock of $1,142,100, qualifying first mortgage loans and qualifying commercial real estate. The balance of qualifying first mortgage loans and qualifying commercial real estate as of December 31, 2006 was approximately $13,247,000. This agreement with the FHLB provides for a line of credit up to 15% of the Bank s assets.

The Company also had available lines of credit totaling $29.5 and $24.7 million, respectively, from correspondent banks at December 31, 2006 and 2005.

Federal funds purchased and securities sold under agreements to repurchase, which generally mature 1 to 4 days from the transaction date, at December 31, 2006 and 2005 are summarized below:

	2006	2005
Outstanding balance at December 31	$ 15,473,065	$ 11,732,738
Year-end weighted average rate	3.69%	3.15%
Average outstanding during the year	14,666,826	13,916,300
Average rate for the year	3.51%	2.16%
Maximum outstanding at any month-end during the year	19,429,667	25,882,233

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AMERICAN COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

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NOTE 8 BORROWINGS (Continued)

Available for sale securities, consisting of US government agencies and mortgage-backed securities, with carrying values of $17,272,040 and $10,474,560 were pledged to secure securities sold under agreements to repurchase at December 31, 2006 and 2005, respectively and are held at an independent correspondent bank.

NOTE 9 LEASES

Operating Leases

The Company has entered into non-cancelable operating leases for the land on which its main office is located and for other branch facilities and equipment. These leases have terms from five to thirty years. In 2002, the Company entered into a sale-leaseback arrangement. Under the arrangement, the Company sold its Marshville branch property and leased it back for a period of ten years with two renewal options for five years each. The leaseback has been accounted for as an operating lease. The gain of $147,156 realized in this transaction has been deferred and is being amortized to income in proportion to rental expense over the term of the lease. Future rentals under these leases are as follows:

	Total
2007	$ 784,793
2008	779,471
2009	770,090
2010	496,598
2011	352,504
2012 - thereafter	2,367,818
Total	$ 5,551,273

Total rent expense under operating leases was approximately $783,000, $721,000 and $623,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

Capital Lease Obligation

The Company leases its main office facility under a capital lease. Leases that meet the criteria for capitalization are recorded as assets and the related obligations are reflected as capital lease obligations on the accompanying balance sheets. Amortization of property under capital lease is included in depreciation expense. Included in premises and equipment at December 31, 2006 and 2005 is $1.7 million as the capitalized cost of the Company s main office and accumulated amortization of $305,186 and $261,588 at December 31, 2006 and 2005, respectively.

At December 31, 2006, aggregate future minimum lease payments due under this capital lease obligation are as follows:

2007	$ 148,057
2008	148,057
2009	148,057
2010	158,421
2011	158,421
2012 - 2029	3,200,071

Total minimum lease payments	3,961,084
Less amount representing interest	(2,266,924)
Present value of net minimum lease payments	$ 1,694,160

Both the land lease and capital leases for the Company s main office discussed above are leased from a former director. Prior to the main facility being completed in November 2000, the Company leased land for its temporary banking facility from that same director. In addition, the Marshville facility is leased from another former director. In January 2003, the Company signed an operating lease for a new branch facility in Mint Hill, North Carolina, with a former director. The lease has an initial term of ten years with two renewal options for five years each. Total lease payments of $494,515, $457,002, and $419,553 were paid to these former directors under these leases during 2006, 2005 and 2004, respectively.

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NOTE 10 JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

On December 31, 2001 and March 1, 2002, $2.0 million and $1.5 million, respectively, of trust preferred securities were placed through American Community Capital Trust I (Capital Trust I). The preferred securities pay cumulative cash distributions quarterly at an annual rate of 9%. The dividends paid to holders of the capital trust preferred securities, which will be recorded as interest expense, are deductible for income tax purposes. The quarterly distributions may, at the option of the Company, be deferred up to five years. Unpaid distributions will be accrued as a component of interest expense. The preferred securities issued in 2001 and 2002 are redeemable on March 1, 2007 or afterwards at the par of $1,000 per share. It is anticipated that these shares will be redeemed at such time. Redemption is mandatory at March 1, 2032. The proceeds of the preferred securities were invested by Capital Trust I in $3.5 million principal amount of 9% junior subordinated debentures of the Company due March 1, 2032. Subsequent to year end, the Company paid off the preferred securities of $3.5 million. See Note 25 for further discussion.

On December 15, 2003, $10.0 million of trust preferred securities were placed through American Community Capital Trust II, Ltd. (Capital Trust II). The preferred securities pay cumulative cash distributions quarterly at a rate priced off 90-day LIBOR plus 280 basis points. The dividends paid to holders of the capital trust preferred securities, which will be recorded as interest expense, are deductible for income tax purposes. The preferred securities issued in 2003 are redeemable on December 15, 2008 or afterwards at par. Redemption is mandatory at December 15, 2033. The proceeds of the preferred securities were invested by Capital Trust II in $10.0 million principal amount of junior subordinated debentures of the Company due December 15, 2033.

The Company fully and unconditionally guarantees the preferred securities through the combined operation of the debentures and other related documents. The Company s obligation under the guarantee is unsecured and subordinate to senior and subordinated indebtedness of the Company. A portion of the preferred securities qualify as Tier I capital for regulatory capital purposes.

A description of the Junior Subordinated Debentures outstanding is as follows:

Issuing Entity	Date of Issuance	Shares Issued	Interest Rate	Maturity Date	Principal Amount 2006	Principal Amount 2005
American Community Capital Trust I	12/31/2001	2,000	9.00%	03/01/2032	$ 2,061,863	$ 2,061,863
American Community Capital Trust I	03/01/2002	1,500	9.00%	03/01/2032	1,546,397	1,546,397
American Community Capital Trust II, Ltd.	12/15/2003	10,000	6.82%	12/15/2033	10,310,000	10,310,000
Total					$ 13,918,260	$ 13,918,260

NOTE 11 OTHER CONTRACTS

The Company entered into non-cancelable contracts with third parties for data processing services. The future minimum payments required under these contracts for the years ending December 31, 2010 are as follows:

2007	$ 525,000
2008	386,000
2009	408,000
2010	433,000
Total	$ 1,752,000

The above future payments are based upon the anticipated future growth of the Company and can therefore vary from the above estimates in any year.

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NOTE 12 INCOME TAXES

Significant components of deferred taxes at December 31, 2006 and 2005 are as follows:

	2006	2005
	(Dollars in thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 1,920	$ 1,482
Capital lease	115	102
Deferred gain on sale-leaseback	27	33
Income from deferred data processing payment	57	72
Nondeductible accrued expenses	6	3
Stock compensation expense	115	
Interest rate hedges	54	
Net unrealized losses on available-for-sale securities	339	454
Other	51	24
Total deferred tax assets	2,684	2,170
Deferred tax liabilities:		
Premises and equipment	(95)	(126)
Leased property	(631)	(967)
Core deposit intangible	(218)	(259)
Prepaid expenses	(111)	(72)
Other	(6)	
Total deferred tax liabilities	(1,061)	(1,424)
Net deferred tax assets	$ 1,623	$ 746

The adoption of SFAS 123R and its fair value compensation cost recognition provisions are different from the non-recognition provisions under SFAS 123 and the intrinsic value method for compensation cost allowed by APB 25. The effect (increase/(decrease)) of the adoption of SFAS 123R for the year ended December 31, 2006 is as follows:

	2006
Income before income tax expense	$ (375,127)
Net income	(260,283)
Cash flow from operating activities	(169,840)
Cash flow provided by financing activities	169,840
Basic earnings per share	0.04
Diluted earnings per share	0.04

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NOTE 13 OTHER NON-INTEREST EXPENSE

The major components of other non-interest expense for the years ended December 31, 2006, 2005 and 2004 are as follows:

	2006	2005	2004
Postage, printing and office supplies	$ 339,553	$ 428,781	$ 317,654
Advertising and promotion	189,482	274,264	134,581
Travel, meals, dues and subscriptions	224,680	200,269	180,588
Telephone	150,253	171,055	168,765
Data processing and technology	835,289	536,923	553,614
Professional fees and contracted services	1,026,626	964,601	841,414
Lawsuit settlement charge			600,000
Other	1,336,898	1,277,017	988,089
Total	$ 4,102,781	$ 3,852,910	$ 3,784,705

NOTE 14 REGULATORY MATTERS

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. 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 and Bank s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The primary sources of funds for the payment of dividends by American Community Bancshares, Inc. are interest and dividends received from its subsidiary, American Community Bank, combined with the proceeds from stock sold by the Company. American Community, as a North Carolina banking corporation, may pay dividends only out of undivided profits as determined pursuant to North Carolina General Statutes Section 53-87. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such limitation is in the public interest and is necessary to ensure a bank s financial soundness.

Quantitative measures established by regulation to ensure capital adequacy require the Company and its bank subsidiary to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2006 and 2005, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2006, the most recent notification from the Federal Deposit Insurance Corporation categorized American Community Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank s category. Prompt corrective action provisions are not applicable to bank holding companies.

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NOTE 14 REGULATORY MATTERS (Continued)

The Company s and the Bank s actual capital amounts and ratios as of December 31, 2006 and 2005 are presented in the following table.

	Actual		Minimum For Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2006:						
Total Capital to Risk						
Weighted Assets:						
Consolidated	$ 64,194	16.18%	$ 31,748	8.00%	$ N/A	N/A
American Community Bank	46,279	11.74%	31,524	8.00%	39,405	10.00%
Tier 1 Capital to Risk						
Weighted Assets:						
Consolidated	59,231	14.93%	15,874	4.00%	N/A	N/A
American Community Bank	41,345	10.49%	15,762	4.00%	19,702	5.00%
Tier 1 Capital to						
Average Assets:						
Consolidated	59,231	12.88%	18,401	4.00%	N/A	N/A
American Community Bank	41,345	9.04%	18,289	4.00%	22,861	5.00%

	Actual		Minimum For Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2005:						
Total Capital to Risk						
Weighted Assets:						
Consolidated	$ 58,950	16.64%	$ 28,349	8.00%	$ N/A	N/A
American Community Bank	40,603	11.49%	28,277	8.00%	35,346	10.00%
Tier 1 Capital to Risk						
Weighted Assets:						
Consolidated	54,619	15.41%	14,175	4.00%	N/A	N/A
American Community Bank	36,270	10.26%	14,139	4.00%	17,673	5.00%
Tier 1 Capital to						
Average Assets:						
Consolidated	54,619	12.78%	17,099	4.00%	N/A	N/A
American Community Bank	36,270	8.49%	17,079	4.00%	21,349	5.00%

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NOTE 15 COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit is based on management s credit evaluation of the borrower. Collateral obtained varies but may include real estate, stocks, bonds, and certificates of deposit.

A summary of the contract amounts of the Company s exposure to off-balance sheet credit risk as of December 31, 2006 is as follows:

Financial instruments whose contract amounts represent credit risk:	
Capital South Partnership investment commitment	$ 125,000
Standby letters of credit	2,247,102
Commitments to extend credit	4,474,125
Undisbursed lines of credit	70,131,643
Undisbursed portion of construction loans	26,564,196

In the normal course of business, the Company is involved in various legal proceedings. The amount of any liability that may result from those proceedings in which the Company is currently involved is expected to be immaterial to the consolidated financial position.

NOTE 16 DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments for which fair value disclosures are required include cash and due from banks, interest-earning deposits with banks, investment securities, loans, Federal Home Loan Bank and Bankers Bank stock, accrued interest, deposits, borrowings, securities sold under agreements to repurchase, and junior subordinated debentures. Fair value estimates are made at a specific moment in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company s entire holdings of a particular financial instrument. Because no active market readily exists for a portion of the Company s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Due from Banks and Interest-earning Deposits with Banks

The carrying amounts for cash and due from banks and interest-earning deposits with banks approximate fair value because of the short maturities of those instruments.

Investment Securities

Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans

The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

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NOTE 16   DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Non-marketable Equity Securities

The carrying value of non-marketable equity securities approximates fair value.

Accrued Interest Receivable and Payable

The carrying amount is a reasonable estimate of fair value.

Deposits

The fair value of demand deposits, savings, money market, and NOW accounts is the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting expected cash flows using the rates currently offered for instruments of similar remaining maturities.

Borrowings, Securities Sold Under Agreements to Repurchase, Federal Funds Purchased and Junior Subordinated Debentures

The fair values of borrowings and fixed rate junior subordinated debentures are based on discounting expected cash flows at the interest rate for debt with the same or similar remaining maturities and collateral requirements. Short-term borrowings, including securities sold under agreements to repurchase and federal funds purchased, are carried at approximate fair value because of the short maturities of those instruments.

Financial Instruments with Off-Balance Sheet Risk

With regard to financial instruments with off-balance sheet risk discussed in Note 15, it is not practicable to estimate the fair value of future financing commitments. The large majority of commitments to extend credit and standby letters of credit are at variable rates and/or have relatively short terms to maturity. Therefore, the fair value for these financial instruments is considered to be immaterial.

The carrying amounts and estimated fair values of the Company s financial instruments, none of which are held for trading purposes, are as follows at December 31, 2006 and 2005:

	2006		2005	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(Dollars in thousands)			
Financial assets:				
Cash and due from banks	$ 19,950	$ 19,950	$ 12,495	$ 12,495
Interest-earning deposits with banks	17,295	17,295	4,454	4,454
Securities available for sale	63,018	63,018	62,127	62,127
Securities held to maturity	2,174	2,192	2,180	2,173
Loans	364,803	371,296	328,377	328,318
Accrued interest receivable	2,938	2,938	2,432	2,432
Non-marketable equity securities	1,879	1,879	1,996	1,996
Financial liabilities:				
Deposits	401,137	398,483	345,401	340,205
Borrowings	6,000	5,569	11,111	10,856
Capital lease obligation	1,694	1,694	1,703	1,703

Securities sold under agreement to repurchase and federal funds purchased	15,473	15,473	11,733	11,733
Accrued interest payable	1,368	1,368	1,919	1,919
Junior subordinated debentures	13,918	14,129	13,918	14,299

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NOTE 17 EMPLOYEE AND DIRECTOR BENEFIT PLANS

401(k) Retirement Plan

The Company has adopted a 401(k) retirement plan that covers all eligible employees. The Company matches contributions of up to 3.0% of each employee s salary. Expenses totaled $98,797, $87,483 and $68,430 for the years ended December 31, 2006, 2005 and 2004, respectively.

Employment Agreement

The Company has entered into employment agreements with certain officers to ensure a stable and competent management base. These agreements provide for terms ranging from three to five years, with automatic extension for an additional year at the end of the initial term and annually thereafter. The agreements provide for benefits as spelled out in the contract and cannot be terminated by the Board of Directors, except for cause, without prejudicing the officer s right to receive certain vested rights, including compensation. In the event of a change in control of the Company and in certain other events, as defined in the agreements, the Company or any successor to the Company will be bound to the terms of the contracts.

NOTE 18 STOCK COMPENSATION PLANS

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R (revised 2004), Share-Based Payment, (SFAS No. 123R) which was issued by the Financial Accounting Standards Board (FASB) in December 2004. SFAS No. 123R revises SFAS No. 123 Accounting for Stock Based Compensation, and supersedes APB No. 25, Accounting for Stock Issued to Employees, (APB No. 25) and its related interpretations. SFAS No.123R requires recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). SFAS No. 123R also requires measurement of the cost of employee services received in exchange for an award based on the grant-date fair value of the award. SFAS No. 123R also amends SFAS No. 95 Statement of Cash Flows, to require that excess tax benefits be reported as financing cash inflows, rather than as a reduction of taxes paid, which is included within operating cash flows.

The Company adopted SFAS No. 123R using the modified prospective application as permitted under SFAS No. 123R. Accordingly, prior period amounts have not been restated. Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Prior to the adoption of SFAS No. 123R, the Company used the intrinsic value method as prescribed by APB No. 25 and thus recognized no compensation expense for options granted with exercise prices equal to the fair market value of the Company s common stock on the date of grant.

The Company has five share-based compensation plans in effect at December 31, 2006. The compensation cost that has been charged against income for those plans was approximately $375,000 for the year ended December 31, 2006. The Company recorded a deferred tax benefit in the amount of $115,000 related to share-based compensation during the year ended December 31, 2006.

In 1999, the Company implemented the 1999 Incentive Stock Option Plan which authorized the Board of Directors to grant up to 246,191 of stock options (as adjusted for stock dividends) to employees and officers of the Company and the 1999 Non-statutory Stock Option Plan which authorized the Board of Directors to grant up to 246,191 of non-qualified stock options to directors. Options granted under the 1999 Stock Option Plans have a term of up to ten years from the date of grant. Vesting of options is determined at the time of grant and ranges from immediate to five years. Options under these plans must be granted at a price not less than the fair market value at the date of grant.

In 2001, the Company implemented the 2001 Incentive Stock Option Plan which authorized the Board of Directors to grant up to 210,300 of stock options (as adjusted for stock dividends) to employees and officers of the company. Options granted under the 2001 Stock Option Plan have a term of up to ten years from the date of grant. These options have a five year vesting period. Options under this plan must be granted at a price not less than the fair market value at the date of grant.

In 2002, the Company implemented the 2002 Non-statutory Stock Option Plan which authorized the Board of Directors to grant up to 37,500 stock options (as adjusted for stock dividends) to directors of the Company. Options granted under the 2002 Non-Statutory Stock Option Plan have a term of up to ten years from the date of grant. Vesting of options is three years. Options under this plan must be granted at a price not less than the fair market value at the date of grant.

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NOTE 18 STOCK COMPENSATION PLANS (Continued)

In 2004, the Company acquired FNB Bancshares, Inc. (First National). First National had two stock option plans, the 1997 Incentive Stock Option Plan and the 1997 Non-statutory Stock Option Plan. At the acquisition date the plans had 133,162 and 160,577 options outstanding, respectively, which vested immediately.

Stock Options

The fair market value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The Company granted 98,000 stock options for the year ended December 31, 2006 with a weighted average fair value of $4.52 per option and granted 72,051 stock options for the year ended December 31, 2004 with a weighted average fair value of $1.59 per option. No options were granted for the year ended December 31, 2005.

Assumptions in estimating option values:

	2006	2005	2004
Risk-free interest rate	4.83%		2.25%
Dividend yield	1.54%		.97%
Volatility	30.24%		14.70%
Expected life	7 years		7 years

The risk-free interest rate is based upon a U.S. Treasury instrument with a life that is similar to the expected life of the option grant. Expected volatility is based upon the historical volatility of the Company based upon the previous three years trading history. The expected term of the options is based upon the average life of previously issued stock options. The expected dividend yield is based upon current yield on date of grant. No post-vesting restrictions exist for these options.

At December 31, 2006, there were 487,893 exercisable options with a weighted average exercise price of $6.52. At December 31, 2005, there were 566,573 exercisable options with a weighted average exercise price of $5.25. Of the total options outstanding at December 31, 2006 and 2005, the remaining average contractual lives were 4.28 and 5.00 years, respectively.

A summary of option activity under the stock option plans as of December 31, 2006 and changes during the year ended December 31, 2006 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2005	643,131	$ 5.57		
Exercised	(178,541)	5.11		
Authorized				
Forfeited	(1,506)	8.81		
Granted	98,000	12.92		

Outstanding at December 31, 2006	561,084	7.00	4.28 years	$ 2,268,658
Exercisable at December 31, 2006	487,893	6.52	3.72 years	2,207,578

For the year ended December 31, 2006, 2005 and 2004 the intrinsic value of options exercised was approximately $1,163,000, $974,000, and $239,000, respectively.

The fair value of stock options vested over the year ended December 31, 2006, 2005 and 2004 was $375,000, $51,000, and $79,000, respectively.

As of December 31, 2006, there was $159,395 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all of the Company s stock benefit plans. That cost is expected to be recognized over a weighted-average period of 3.57 years.

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NOTE 18 STOCK COMPENSATION PLANS (Continued)

The Company funds the option shares from authorized but unissued shares. Company policy does allow option holders to exercise options with seasoned shares.

Cash received from option exercise under all share-based payment arrangements for the year ended December 31, 2006 was $911,670. The actual tax benefit in stockholders equity realized for the tax deductions from option exercise of the share-based payment arrangements totaled $169,840 for the year ended December 31, 2006.

The adoption of SFAS 123R and its fair value compensation cost recognition provisions are different from the non-recognition provisions under SFAS 123 and the intrinsic value method for compensation cost allowed by APB 25. The effect (increase/(decrease)) of the adoption of SFAS 123R for the year ended December 31, 2006 is as follows:

	2006
Income before income tax expense	$ (375,127)
Net income	(260,283)
Cash flow from operating activities	(169,840)
Cash flow provided by financing activities	169,840
Basic earnings per share	0.04
Diluted earnings per share	0.04

The following illustrates the effect on net income available to common stockholders if the Company had applied the fair value recognition provisions of SFAS No. 123 to the prior years ended December 31, 2005 and 2004 (in thousands, except per share data):

	2005	2004
	(dollars in thousands)	
Net income, as reported	$ 4,508	$ 2,743
Add: Stock-based employee compensation expense included in the reported net income, net of related income taxes		
Less: Stock-based employee compensation expense determined under fair value based method of all awards, net of related income taxes	(51)	(79)
Proforma net income	$ 4,457	$ 2,664
Earnings per share basic, as reported	$ 0.71	$ 0.56
Earnings per share basic, pro forma	0.70	0.54
Earnings per share diluted, as reported	0.66	0.50
Earnings per share diluted, pro forma	0.65	0.48

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NOTE 19 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

In the normal course of business, the Company enters into derivative contracts to manage interest rate risk by modifying the characteristics of the related balance sheet instruments in order to reduce the adverse effect of changes in interest rates. All derivative financial instruments are recorded at fair value in the consolidated financial statements.

On the date a derivative contract is entered into, the Company designates the derivative as a fair value hedge, a cash flow hedge, or a trading instrument. Changes in the fair value of instruments used as fair value hedges are accounted for in the earnings of the period simultaneous with accounting for the fair value change of the item being hedged. Changes in the fair value of the effective portion of cash flow hedges are accounted for in other comprehensive income rather than earnings. Changes in fair value of instruments that are not intended as a hedge are accounted for in the earnings of the period of the change.

If a derivative instrument designated as a fair value hedge is terminated or the hedge designation removed, the difference between a hedged item s then carrying amount and its face amount is recognized into income over the original hedge period. Likewise, if a derivative instrument designated as a cash flow hedge is terminated or the hedge designation removed, related amounts accumulated in other accumulated comprehensive income are reclassified into earnings over the original hedge period during which the hedged item affects income.

As of December 31, 2006, the Company had two cash flow hedges with a notional amount of $30.0 million and $15.0 million, respectively. Both derivative instruments consist of an interest rate floor contract that is used to protect certain designated variable rate loans from the downward effects of their repricing in the event of a decreasing rate environment for a period of three years ending in February 2009 and June 2009, respectively. If the prime rate falls below 7.25% during the term of the first contract, the Company will receive payments based on the $30.0 million notional amount times the difference between 7.25% and the daily weighted average prime rate for the quarter. No payments will be received by the Company if the weighted average prime rate is 7.25% or higher. The Company paid a premium of $228,000 on this contact, which is being amortized over the three-year term of the contract. On the second floor, if the prime rate falls below 7.75% during the term of this contract, the Company will receive payments based on the $15.0 million notional amount times the difference between 7.75% and the weighted average prime rate for the quarter. No payments will be received by the Company if the weighted average prime rate is 7.75% or higher. The Company paid a premium of $95,250 on this contract. The interest rate floors are carried at a fair market value of $178,735 and are included in other assets as of December 31, 2006. Changes in fair value of the hedged instrument that are deemed effective are offset in other comprehensive income net of tax while the ineffective portion of the hedge is recorded to other income. The Company recorded $9,814 of other income during the year ended December 31, 2006 for the ineffective portion of the hedged instruments.

NOTE 20 SALE OF COMMON STOCK AND EXERCISE OF WARRANTS

The Company completed the sale of 1,000,500 units, which consisted of one share of common stock and one warrant to buy one share of common stock, at $9.00 per share on April 29, 2002. Expenses associated with the sale amounted to $1,016,001 resulting in net proceeds from the offering of $7,988,499. The warrants entitled the holder to purchase one share of common stock at $10.50 per share and expired on April 30, 2005. As a result of warrants exercised in 2005 and 2004, 999,012 common shares were issued and total capital received was $10,489,626.

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NOTE 21 PARENT COMPANY FINANCIAL DATA (Continued)

Following are condensed financial statements of American Community Bancshares, Inc. as of December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004:

Condensed Statements of Financial Condition

December 31, 2006 and 2005

	2006	2005
Assets:		
Cash and due from banks	$ 55,659	$ 207,728
Interest earning deposits with banks	14,142,904	16,193,700
Investment in securities available for sale	403,469	403,469
Investment in American Community Bank	51,100,890	46,037,722
Investment in American Community Capital Trust I	108,260	108,260
Investment in American Community Capital Trust II, Ltd.	310,000	310,000
Other assets	2,864,622	1,543,608
Total Assets	$ 68,895,804	$ 64,804,487
Liabilities and Stockholders Equity:		
Liabilities:		
Due to American Community Capital Trust I	$ 3,608,260	$ 3,608,260
Due to American Community Capital Trust II, Ltd.	10,310,000	10,310,000
Total Liabilities	13,918,260	13,918,260
Stockholders Equity:		
Common stock	7,008,081	4,568,673
Additional paid-in capital	39,920,980	38,881,954
Retained earnings	8,787,406	8,178,434
Accumulated other comprehensive loss	(648,923)	(742,834)
Total stockholders equity	55,067,544	50,886,227
Total Liabilities and Stockholders Equity	$ 68,985,804	$ 64,804,487

Condensed Statements of Operations

Years Ended December 31, 2006, 2005 and 2004

	2006	2005	2004
Interest income:			

Interest-earning deposits with banks	$ 943,311	$ 810,969	$ 664,925
Interest expense:			
Junior subordinated debentures issued to American Community Capital Trust I and II	1,148,814	965,055	779,595
Non-interest income:			
Equity in earnings of American Community Bank	4,424,288	4,644,491	2,162,823
Equity in earnings of First National Bank of the Carolinas			677,000
Total non-interest income	4,424,288	4,644,491	2,839,823
Non-interest expense:			
Professional fees	14,100	41,851	18,138
Other	21,850	27,019	30,811
Total non-interest expense	35,950	68,870	48,949
Income before taxes	4,182,835	4,421,535	2,676,204
Income tax benefit	(93,000)	(86,000)	(67,000)
Net income	$ 4,275,835	$ 4,507,535	$ 2,743,204

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AMERICAN COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2006, 2005 and 2004

NOTE 21 PARENT COMPANY FINANCIAL DATA (Continued)

Condensed Statements of Cash Flows

Years Ended December 31, 2006, 2005 and 2004

	2006	2005	2004
Cash flows from operating activities:			
Net income	$ 4,275,835	$ 4,507,535	$ 2,743,204
Equity in earnings of subsidiaries	(4,424,288)	(4,644,491)	(2,839,823)
Decrease (increase) in other assets	(1,321,014)	(1,287,426)	195,835
Net cash provided (used) by operating activities	(1,469,467)	(1,424,382)	99,216
Cash flows from investing activities:			
Purchases of investments available for sale			(403,469)
Investment in American Community Bank		(500,000)	(2,700,000)
Investment in First National Bank of the Carolinas			(7,434,275)
Net cash used by investing activities		(500,000)	(10,537,744)
Cash flows from financing activities:			
Repayment of advances from subsidiaries		439,747	
Proceeds from advances from subsidiaries			211,222
Repurchase of common stock	(263,070)		
Proceeds from issuance of common stock	911,970	10,906,899	327,672
Cash dividends paid on common stock	(1,382,298)	(860,719)	(282,571)
Net cash provided (used) by financing activities	(733,398)	10,485,927	256,324
Increase (decrease) in cash and cash equivalents	(2,202,865)	8,561,545	(10,182,204)
Cash and cash equivalents, beginning	16,401,428	7,839,883	18,022,087
Cash and cash equivalents, ending	$ 14,198,563	$ 16,401,428	$ 7,839,883

NOTE 22 BUSINESS COMBINATION

On November 5, 2003, the Company entered into an Agreement and Plan of Merger with FNB Bancshares, Inc., a bank holding company headquartered in Gaffney, SC, which is the parent company of First National Bank of the Carolinas. The acquisition was approved at a special shareholders meeting on March 4, 2004 and the transaction took place effective at the close of business on April 15, 2004. First National shareholders could elect to receive $22.64 in cash for each share of First National stock they owned, exchange each share of First National stock for 1.6347 shares of American Community Bancshares, Inc. stock, or a combination of stock and cash. As a result of the combination, the Company paid $7.1 million for shares exchanged for cash and has issued 619,044 additional shares of stock. The acquisition was accounted for using the purchase method of accounting, with the operating results of First National subsequent to April 15, 2004 included in the Company s consolidated financial statements.

A summary of the total purchase price of the transaction is as follows:

	(Dollars in thousands)
Fair value of common stock issued	$ 8,574
Cash paid for shares	7,080
Fair value of stock options exchanged	1,616
Transaction costs	392
Total purchase price	$ 17,662

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AMERICAN COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2006, 2005 and 2004

NOTE 22 BUSINESS COMBINATION (Continued)

A summary of the estimated fair value of the First National assets acquired and liabilities assumed is as follows:

	(Dollars In thousands)
Cash and cash equivalents	$ 4,374
Investment securities available for sale	7,421
Non-marketable securities	416
Loans receivable	56,839
Allowance for loan losses	(685)
Premises and equipment	3,071
Deferred tax asset	108
Goodwill	9,838
Other assets	1,410
Deposits	(61,268)
Borrowings	(2,000)
Securities sold under agreement to repurchase	(1,219)
Other liabilities	(1,035)
Net assets acquired	17,270
Transaction costs	392
Total purchase price	$ 17,662

The following table reflects the unaudited pro forma combined results of operations for the year ended December 31, 2004, assuming the acquisition had occurred at the beginning of the fiscal year 2004.

	2004 (In thousands, except per share data)
Net interest income	$ 12,897
Net income	3,074
Net income per common share basic	.59
Net income per common share diluted	.53

The pro forma net income for the twelve months ended December 31, 2004 does not reflect approximately $398,000 in acquisition related costs incurred by First National. In management s opinion, these unaudited results are not necessarily indicative of what actual combined results of operations might have been if the acquisition had been effective at the beginning of fiscal year 2004.

NOTE 23 STOCK SPLIT

On January 25, 2006, the Company declared a three-for-two stock split in the form of a 50% stock dividend to shareholders of record on February 7, 2006 and payable on February 21, 2006. All references to net income per share and weighted average shares outstanding have been adjusted for the effect of this stock split.

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AMERICAN COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2006, 2005 and 2004

NOTE 24 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth, for the periods indicated, selected information from our consolidated quarterly financial information. This information is derived from our unaudited financial statements, which include, in the opinion of management, all normal recurring adjustments which management considers necessary for a fair presentation of the results for such periods.

	Year Ended December 31, 2006			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands except per share data)			
Interest income	$ 8,754	$ 8,320	$ 7,932	$ 7,328
Interest expense	3,898	3,646	3,180	2,797
Net interest income	4,856	4,674	4,752	4,531
Provision for loan losses	143	1,529	668	272
Net interest income after provision for loan loss	4,713	3,145	4,084	4,259
Non-interest income	795	862	869	827
Total non-interest expense	3,261	3,105	3,449	3,023
Income before income taxes	2,247	902	1,504	2,063
Provision for income taxes	822	290	572	756
Net income	$ 1,425	$ 612	$ 932	$ 1,307
Net income per share				
Basic	$ 0.20	$ 0.09	$ 0.14	$ 0.19
Diluted	0.20	0.09	0.13	0.18
Common stock price				
High	$ 11.71	$ 12.23	$ 13.49	$ 13.73
Low	11.00	11.18	12.04	12.14

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AMERICAN COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2006, 2005 and 2004

NOTE 24 QUARTERLY FINANCIAL INFORMATION (UNAUDITED) (Continued)

	Year Ended December 31, 2005			
	Fourth Quarter	**Third Quarter**	**Second Quarter**	**First Quarter**
	(In thousands except per share data)			
Interest income	$ 7,112	$ 6,797	$ 6,003	$ 5,672
Interest expense	2,615	2,468	2,116	1,981
Net interest income	4,497	4,329	3,887	3,691
Provision for loan losses	294	224	182	109
Net interest income after provision for loan loss	4,203	4,105	3,705	3,582
Non-interest income	838	829	880	747
Total non-interest expense	3,135	3,063	2,896	2,648
Income before income taxes	1,906	1,871	1,689	1,681
Provision for income taxes	697	686	623	633
Net income	$ 1,209	$ 1,185	$ 1,066	$ 1,048
Net income per share				
Basic	$ 0.18	$ 0.17	$ 0.17	$ 0.19
Diluted	0.17	0.17	0.16	0.17
Common stock price				
High	$ 12.51	$ 11.47	$ 11.53	$ 9.53
Low	12.07	11.44	11.33	9.46

NOTE 25 SUBSEQUENT EVENT

On March 9, 2007, the Company redeemed $3,500,000 of its 9.00% Trust Preferred Securities. The redemption included interest from January 1, 2007 through the redemption date and was paid with the proceeds from the sale of investment securities available for sale. As a result of the redemption, the Company s Tier 1 capital decreased by $3.5 million. The Company continues to meet all regulatory capital requirements.

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ITEM 9A CONTROLS AND PROCEDURES

The Company s management including its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of December 31, 2005. Based upon that evaluation, the Company s Chief Executive Officer and Chief Financial Officer each concluded that as of December 31, 2006, the end of the period covered by this Annual Report on Form 10-K, the Company maintained effective disclosure controls and procedures.

There have been no changes in the Company s internal control over financial reporting identified in connection with the evaluation that occurred during the Company s last fiscal quarter that has materially affected, or that is reasonably likely to materially affect, the Company s internal control over financial reporting.

MANAGEMENT S ANNUAL REPORT

ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of American Community Bancshares, Inc. is responsible for preparing the Company s annual consolidated financial statements and for establishing and maintaining adequate internal control over financial reporting for the Company. Management has evaluated the effectiveness of the Company s internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2006.

The Company s registered public accounting firm that audited the Company s consolidated financial statements included in this annual report has issued an attestation report on management s assessment of internal control over financial reporting.

Randy P. Helton	Dan R. Ellis, Jr.
President & Chief Executive Officer	*Chief Financial Officer*

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

American Community Bancshares, Inc.

Charlotte, North Carolina

We have audited management s assessment, included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting, that American Community Bancshares, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that American Community Bancshares, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, American Community Bancshares, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of American Community Bancshares, Inc. as of and for the year ended December 31, 2006, and our report dated March 28, 2007, expressed an unqualified opinion on those consolidated financial statements.

Charlotte, North Carolina
March 28, 2007

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ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Index to Exhibits

Exhibit number	Description of Exhibit
31(i)	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act (Filed herewith)
31(ii)	Certification of Principal Accounting Officer Pursuant to Section 302 of the Sarbanes Oxley Act (Filed herewith)

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SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

October 26, 2007	/s/ Randy P. Helton Randy P. Helton President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Randy P. Helton	October 26, 2007
Randy P. Helton, President,	
Chief Executive Officer and Director	
/s/ Dan R. Ellis, Jr.	October 26, 2007
Dan R. Ellis, Jr., Chief Financial Officer	
/s/ Frank L. Gentry	October 26, 2007
Frank L. Gentry, Director	
/s/ Philip R. Gilboy	October 26, 2007
Phil R. Gilboy, Director	
/s/ David J. Guilford	October 26, 2007
David J. Guilford, Director	
/s/ Larry S. Helms	October 26, 2007
Larry S. Helms, Director	
/s/ Alison J. Smith	October 26, 2007
Alison J. Smith, Director	
/s/ David D. Whitley	October 26, 2007
David D. Whitley, Director	
/s/ Gregory N. Wylie	October 26, 2007
Gregory N. Wylie, Director	

/s/ Robert G. Dinsmore	October 26, 2007
Robert G. Dinsmore, Director	
/s/ Thomas J. Hall	October 26, 2007
Thomas J. Hall, Director	
	October 26, 2007
Peter A. Pappas, Director	
/s/ L. Steven Phillips	October 26, 2007
L. Steven Phillips, Director	
/s/ V. Stephen Moss	October 26, 2007
V. Stephen Moss	