AMERICAN COMMUNITY BANCSHARES INC
Form 10KSB
March 25, 2005
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OF

THE SECURITIES EXCHANGE ACT OF 1934

FOR FISCAL YEAR ENDED DECEMBER 31, 2004

Commission File Number: 000-30517

AMERICAN COMMUNITY BANCSHARES, INC.

(Exact Name of Registrant as specified in its charter)

NORTH CAROLINA

(State of Incorporation)

56-2179531

(I.R.S. Employer Identification No.)

4500 Cameron Valley Parkway, Suite 150

Charlotte, North Carolina 28211

(Address of Principal Office)

(704) 225-8444

(Registrant s telephone number, including area code)

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

COMMON STOCK, $1.00 PAR VALUE

Check whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **YES x NO ¨**

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B not contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. **x**

The Registrant s revenues for the year ended December 31, 2004 were $21,554,050.

The aggregate market value of the voting stock held by non-affiliates of the Registrant at December 31, 2004 was approximately $54,543,591.

The number of shares of the Registrant s Common Stock outstanding on December 31, 2004 was 3,489,249.

Documents Incorporated by Reference:

1. Portions of Registrant s Proxy Statement for the 2005 Annual Meeting of Shareholders (Part III).

Transitional Small Business Disclosure Format Yes ¨ No x

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PART 1

ITEM 1 DESCRIPTION OF BUSINESS

Who We Are

American Community Bancshares, Inc. (Bancshares) is a bank holding company that owns all of the common stock of American Community Bank (American Community) a North Carolina-chartered bank and First National Bank of the Carolinas (First National) a South Carolina-chartered bank (collectively known as Banks) both of which deposit accounts are insured by the Bank Insurance Fund of the FDIC. Bancshares was incorporated on February 16, 2000 as a North Carolina-chartered corporation and became the holding company for American Community on April 28, 2000. To become American Community s holding company, Bancshares received approval of the Federal Reserve Board as well as American Community s shareholders. Upon receiving such approvals, each share of the common stock of American Community was exchanged on a one-for-one basis for shares of the common stock of Bancshares. Bancshares acquired First National 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 617,343 additional shares of stock.

Since opening in November of 1998, we have accomplished the following:

- Assembled a management team consisting of bankers from our local markets who each have over 20 years of banking experience;
- Assembled an experienced and diverse board of directors that provides strategic expertise unique to a community bank of our size;
- Opened eight full service banking offices throughout Union County and Mecklenburg County, home of Charlotte, one of North Carolina s largest and fastest growing metropolitan areas;
- Developed separate divisions within the Banks to provide mortgage banking, account receivable financing and leasing products;
- Implemented investment brokerage services through an agreement with Smith Barney at American Community and Raymond James Financial at First National;
- Augmented our capital base through a local, best-efforts common stock offering of $1.3 million in early 2001, the private placement of $3.5 million of trust preferred securities in late 2001 and early 2002, an additional public offering of units (which consisted of one share of stock and one warrant to buy stock) of $8.1 million in April 2002, and an additional $10.0 million in trust preferred securities in December 2003;
- Listed our common stock on the Nasdaq SmallCap Market on July 17, 2001 under the symbol ACBA;

Developed a local identity in the communities we serve by sponsoring a wide variety of civic and charitable events;

Completed the acquisition of FNB Bancshares, Inc. and its subsidiary, First National Bank of the Carolinas, Gaffney, SC, thus giving us entry into South Carolina which borders our market area to the south and providing three branches in Cherokee County, SC;

Announced the opening of two new branches in the South End area of Charlotte and Tega Cay, SC providing the organization a total of thirteen branches throughout North and South Carolina.

The Banks operate for the primary purpose of serving the banking needs of individuals, and small to medium-sized businesses in our market areas. While numerous banks in our market have chosen to focus on the affluent and high net worth individuals, we have chosen to focus on middle income households and the entrepreneurial segment of our market. We offer a wide range of banking services including checking, certificates of deposit and savings accounts, commercial, consumer and personal loans, mortgage, account receivable financing and leasing services and other associated financial services.

Our Market Area

We consider our primary market area to be the Southern Piedmont area of North Carolina, including Union, Mecklenburg and adjoining counties, and Cherokee and York Counties of South Carolina. The Banks will serve our market area through thirteen full service branch locations including a Wal-Mart Superstore branch in Monroe, which is open seven days a week to offer even more convenience to our customers. The Banks customers may access various banking services through ATMs owned by the Bank and ATMs owned by others, through debit cards, and through the Banks automated telephone and online banking products.

Union County had an estimated 2004 population of 148,000 and Mecklenburg County was estimated at 773,000. Both counties have a balanced and diversified economy. Monroe, with a population of approximately 27,000, is the largest city in Union County. Charlotte, with a population of approximately 594,000, is Mecklenburg County s and North Carolina s largest city. Union County is currently the fastest growing county in North Carolina. Charlotte has consistently been one of the fastest growing areas of the Southeast and is ranked 21st in US population. In 2003, the unemployment rate was 4.9% for Union County and 5.2% for Mecklenburg County; both lower than the North Carolina state rate of 5.8%. In 2003, Union County had an estimated labor force of 72,037 and Mecklenburg County had 413,442. Cherokee County has an estimated population of 54,000 and an estimated growth rate of 4%. York County has an estimated population of 170,000, is the 2nd fastest growing county in South Carolina, and ranked 4th in per capita income in South Carolina.

Strategy

American Community has expanded aggressively since its opening for business in November 1998. Because of its strong capital position created during its incorporation stage, American Community had the requisite capital needed to permit it to immediately establish branch offices. American Community s branching strategy is opportunistic: it has established branch offices in growing areas within Union and Mecklenburg Counties where there are opportunities to hire successful local bankers who have a loyal following of deposit and loan customers. To date we have centered each of our branch offices around such a local and experienced banker. Management also believes it is important in the early formation years to build branches that will provide convenience and efficiencies in its operational infrastructure. Charlotte is a highly competitive banking market with many competitors including money center, super-regional and community banks. American Community s strategy is to develop a branch network surrounding Charlotte and to take advantage of opportunities that present themselves in both new geographic and new product markets. American Community reorganized itself into the holding company form of organization to give it the greatest legal flexibility to take advantage of any opportunities that might arise. We will continue to search for opportunities, either for de novo branching, branch purchase or whole bank acquisitions, to complete our encirclement of the growing Charlotte market by progressing in either a south and west or north and west direction. The acquisition of First National Bank of the Carolinas provides us the opportunity to expand across the South Carolina state line into York County, the second fastest growing county in South Carolina. In addition, we will remain open to opportunistic expansion through acquisition of additional whole banks in other growing metropolitan areas of North Carolina and South Carolina if the acquisition enhances shareholder value and there exists synergies of operations and compatible corporate culture (i.e. a community bank serving a community s needs).

Lending Activities

General. The Banks provide to its customers a full range of short- to medium-term commercial, agricultural, Small Business Administration guaranteed, mortgage, construction and personal loans, both secured and unsecured. The Banks also make real estate mortgage and construction loans. The Banks have maintained a good balance between variable and fixed rate loans within its portfolio. Variable rate loans accounted for 64% of the loan balances outstanding at December 31, 2004 while fixed rate loans accounted for 36% of the balances. The Banks emphasized variable rate loans in 2004 due to the interest rate environment that prevailed during the year.

The Banks loan policies and procedures establish the basic guidelines governing its lending operations. Generally, the guidelines address the types of loans that the Banks seek, target markets, underwriting and collateral requirements, terms, interest rate and yield considerations and compliance with laws and regulations. All loans or credit lines are subject to approval procedures and amount limitations. These limitations apply to the borrower s total outstanding indebtedness to the Banks, including the indebtedness of any guarantor. The policies are reviewed and approved at least annually by the Board of Directors of the Banks. The Banks supplement their own supervision of the loan underwriting and approval process with periodic loan audits by external loan examiners experienced in loan review work. The Banks have focused their portfolio lending activities on typically higher yielding commercial, construction and consumer loans.

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Loan Composition. The following table sets forth at the dates indicated the Banks   loan portfolio composition by type of loan:

	2004		2003		2002		2001		2000	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
Real estate - mortgage loans:										
1-4 family	$ 27,161	8.82%	$ 15,894	7.77%	$ 12,426	7.52%	$ 10,329	7.32%	$ 9,106	8.32%
Commercial mortgage	84,621	27.46%	80,395	39.32%	58,237	35.24%	54,305	38.47%	29,538	26.99%
Construction/development	39,844	12.93%	28,469	13.92%	25,079	15.18%	13,692	9.70%	17,085	15.61%
Home equity lines of credit	24,575	7.98%	16,526	8.08%	14,643	8.86%	12,996	9.20%	9,694	8.86%
Commercial and industrial loans	85,911	27.88%	41,121	20.11%	33,313	20.16%	39,249	27.80%	35,673	32.59%
Loans to individuals	30,813	10.00%	8,672	4.25%	9,990	6.05%	9,809	6.95%	8,348	7.63%
Lease financing, net	15,177	4.93%	13,397	6.55%	11,548	6.99%	795	0.56%		
Subtotal	308,102	100.00%	204,474	100.00%	165,236	100.00%	141,175	100.00%	109,444	100.00%
Less: allowance for loan losses	(3,488)		(2,529)		(2,375)		(1,736)		(1,385)	
Plus: net unamortized deferred fees and costs	(114)		59		130		92			
Total	$ 304,500		$ 202,004		$ 162,991		$ 139,531		$ 108,059	

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The following table sets forth the contractual maturity of loans at December 31, 2004:

	One Year Or Less	Greater than One Year Through 5 Years	More Than 5 Years	Total
	(Dollars in thousands)			
Real estate mortgage loans:				
1-4 family	$ 8,891	$ 15,154	$ 3,116	$ 27,161
Commercial mortgage	16,104	59,041	9,476	84,621
Construction/development	30,172	8,500	1,172	39,844
Home equity lines of credit		1,190	23,385	24,575
Commercial and industrial loans	39,747	43,318	2,846	85,911
Loans to individuals	13,438	15,034	2,341	30,813
Lease financing, net	5,822	9,355		15,177
Total	$ 114,174	$ 151,592	$ 42,336	$ 308,102

The following table sets forth loans with fixed and variable rates having contractual maturities greater than one year at December 31, 2004:

	Fixed Rate	Variable Rate	Total
	(Dollars in thousands)		
Real estate mortgage loans	$ 53,307	$ 43,152	$ 96,459
Home equity lines of credit		24,575	24,575
Commercial and industrial loans	16,351	29,813	46,164
Loans to individuals	13,743	3,632	17,375
Lease financing, net	9,355		9,355
	$ 92,756	$ 101,172	$ 193,928

Real Estate Loans. Real estate loans are made for purchasing, constructing and refinancing one-to-four family, five or more family and commercial properties. The Banks offer fixed and adjustable rate options, but typically limits the maximum fixed rate term to five years. The Banks provide customers access to long-term conventional real estate loans through its mortgage loan department, which makes loans for the account of third parties.

Residential one-to-four family loans amounted to $27.2 million at December 31, 2004. The Banks residential mortgages loans are typically construction loans that convert into permanent financing and are secured by properties located within the Banks market areas. Most of the permanent one-to-four family residential mortgage loans that the Banks originate are for the account of third parties. Such loans are closed by the third party and therefore are not shown in the Banks financial statements. The Banks receive a fee for each such loan originated, with such fees aggregating $365,000 for the year ended December 31, 2004. The Banks anticipate that they will continue to be an active originator of residential loans for the account of third parties.

The Banks have made, and anticipate continuing to make, commercial real estate loans. Commercial real estate loans equaled $84.6 million at December 31, 2004. This lending has involved loans secured principally by owner occupied commercial buildings for office, storage and warehouse space. The Banks require the personal guaranty of borrowers and a demonstrated cash flow capability sufficient to service the debt. Loans secured by commercial real estate may be larger in size and may involve a greater degree of risk than one-to-four family residential mortgage loans. Payments on such loans are often dependent on successful operation or management of the properties.

Another of the Banks primary lending focus is construction/development lending with balances outstanding as of December 31, 2004 of $39.8 million. The Banks originate one to four family residential construction loans for the construction of custom homes (where the home buyer is the borrower) and provides financing to builders and

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consumers for the construction of pre-sold homes. The Banks generally receive a pre-arranged permanent financing commitment from an outside banking entity prior to financing the construction of pre-sold homes. The Banks are active in the construction market and on occasion make construction loans to builders of homes that are not presold, but limits the number of speculative loans to any one builder. This type of lending is only done with local, well-established builders and not to large or national tract builders. The Banks lend to builders who have demonstrated a favorable record of performance and profitable operations and who are building in markets that management believes it understands and in which it is comfortable with the economic conditions. The Banks also make commercial real estate construction loans, primarily for owner-occupied properties. The Banks further endeavor to limit their construction lending risk through adherence to established underwriting procedures. The Banks generally require documentation of all draw requests and utilize third party appraisers to inspect the project prior to paying any draw requests from the builder. With few exceptions, the Banks require personal guarantees and secondary sources of repayment on construction loans.

Commercial Loans. Commercial business lending is also a focus of the Banks lending activities. At December 31, 2004, the Banks commercial loan portfolio equaled $85.9 million. Commercial loans include both secured and unsecured loans for working capital, expansion, and other business purposes. Short-term working capital loans generally are secured by accounts receivable, inventory and/or equipment. The Banks also make term commercial loans secured by equipment and real estate. Lending decisions are based on an evaluation of the financial strength, cash flow, management and credit history of the borrower, and the quality of the collateral securing the loan. With few exceptions, the Banks require personal guarantees and secondary sources of repayment. Commercial loans generally provide greater yields and reprice more frequently than other types of loans, such as real estate loans. More frequent repricing means that yields on our commercial loans adjust with changes in interest rates.

Loans to Individuals and Home Equity Lines of Credit. Loans to individuals (consumer loans) include automobile loans, boat and recreational vehicle financing, home equity and home improvement loans and miscellaneous secured and unsecured personal loans. Consumer loans generally can carry significantly greater risks than other loans, even if secured, if the collateral consists of rapidly depreciating assets such as automobiles and equipment. Repossessed collateral securing a defaulted consumer loan may not provide an adequate source of repayment of the loan. Consumer loan collections are sensitive to job loss, illness and other personal factors. The Banks attempt to manage the risks inherent in consumer lending by following established credit guidelines and underwriting practices designed to minimize risk of loss.

Leasing. The Banks offer lease financing primarily to small business in our local market. The type of lease financing is generally limited to heavy machinery, manufacturing equipment, and specific vehicles. The leases are structured as to provide no residual risk to the Banks. The leasing division also requires personal guarantees on the majority of our leases. In December 2002, the American Community purchased a leasing portfolio of approximately $6.5 million from a company whose management team then joined the American Community. Approximately $1.5 million of the purchased portfolio is still outstanding at December 31, 2004. The division s professional staff with over 30 years of combined leasing experience in our market enhances the ability of the Banks to offer our customers a complete line of financial products.

Loan Approvals. The Banks loan policies and procedures establish the basic guidelines governing its lending operations. Generally, the guidelines address the type of loans that the Banks seek, target markets, underwriting and collateral requirements, terms, interest rate and yield considerations and compliance with laws and regulations. All loans or credit lines are subject to approval procedures and amount limitations. These limitations apply to the borrower s total outstanding indebtedness to the Banks, including the indebtedness of any guarantor. The policies are reviewed and approved at least annually by the Board of Directors of the Banks. The Banks supplement their own supervision of the loan underwriting and approval process with periodic loan audits by independent, outside professionals experienced in loan review work.

Responsibility for loan review and loan underwriting resides with the Chief Lending Officer. He is responsible for loan processing, loan underwriting and approval. On an annual basis, the Board of Directors of the Banks determine the President s lending authority, who then delegates lending authorities to the Chief Lending Officer and other lending officers of the Banks. Delegated authorities may include loans, letters of credit, overdrafts, uncollected funds and such other authorities as determined by the Board of Directors or the President within his delegated authority.

The President of American Community, the President of First National and the Chief Lending Officer each have the authority to approve loans up to the lending limit set by the Board of Directors, which was $1,000,000, $400,000

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and $500,000, respectively at December 31, 2004. All loans above the lending limit of the Presidents and the Chief Lending Officer are reviewed and approved by the Loan Committee, which consists of the Presidents and seven outside directors. In addition, the Chief Lending Officer serves as a non-voting member. At December 31, 2004 the Loan Committee had the authority to approve loans up to $1,500,000. All loans above the lending limit of the Loan Committee are reviewed and approved by the full Board of Directors. The Banks combined legal lending limit was $4.7 million at December 31, 2004. The Banks seldom makes loans approaching their legal lending limit.

The Banks are an active home mortgage originator and several of our offices have trained lending personnel to originate home mortgage loans for the account of third parties. We currently have four lending relationships to which we sell all home mortgages to enable us to satisfy special lending requests of its borrowing customers.

The Banks offer a credit card on an agency basis as an accommodation to its customers. The Banks assume none of the underwriting risk.

Nonperforming Assets

The table sets forth, for the period indicated, information about our nonaccrual loans, restructured loans, total nonperforming loans (nonaccrual loans plus restructured loans), and total nonperforming assets.

	At December 31,		
	2004	**2003**	**2002**
	(Dollars in thousands)		
Nonaccrual loans	$ 881	$ 330	$ 580
Restructured loans			
Total nonperforming loans	881	330	580
Foreclosed real estate and other repossessed assets	311	157	463