STAR GAS PARTNERS LP
Form 8-K
February 17, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event Reported): February 17, 2017

STAR GAS PARTNERS, L.P.
(Exact Name of Registrant as Specified in Charter)

Delaware	**001-14129**	**06-1437793**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification Number)

9 West Broad Street, Suite 310, Stamford, CT 06902
(Address of Principal Executive Offices) (Zip Code)

(203) 328-7310
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

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

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events.

On February 17, 2017, Star Gas Partners, L.P., a Delaware limited partnership (the “Partnership” or “Star”), issued a press release announcing that the Partnership was advised by Kestrel Energy Partners, LLC ("Kestrel") that Kestrel has distributed approximately 12.7 million common units of limited partnership interests of Star held by its wholly-owned subsidiary KM2, LLC (“KM2”) to its Members in accordance with the terms of Kestrel’s and KM2’s operating agreements, respectively. Following the distribution of these units, Kestrel, through its wholly-owned subsidiary Kestrel Heat, LLC, the general partner of the Partnership, will continue to own 325,729 general partner units and 500,000 common units of the Partnership. A copy of the press release is furnished within this report as Exhibit 99.1.

The information in this report is being furnished, and is not deemed as "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be deemed incorporated by reference in any filings under the Securities Act of 1933, as amended, unless specifically stated so therein.

Item 9.01. Financial Statements and Exhibits.

Exhibit 99.1 A copy of the Star Gas Partners, L.P. Press Release dated February 17, 2017.

SIGNATURE

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

STAR GAS PARTNERS, L.P.
By: Kestrel Heat, LLC (General Partner)

Date: February 17, 2017

By: /s/ Richard Ambury
Richard Ambury
Chief Financial Officer

VALIGN="bottom"> **2003 (Dollars in thousands)**

Current tax provision:

Federal

$1,657 $1,300 $537

State

423 280 127 2,080 1,580 664

Deferred tax provision (benefit):

Federal

557 61 117

State

2 (24) 26 559 37 143

Provision for income taxes

$2,639 $1,617 $807

The difference between the provision for income taxes and the amounts determined by applying the statutory federal income tax rate of 34% to income before income taxes is summarized below:

	2005	2004	2003
	(Dollars in thousands)		
Benefits computed at statutory rate of 34%	$ 2,430	$ 1,482	$ 746
Effect of state income taxes	280	184	101
U. S. Government interest	(75)	(57)	(30)

Other	4	8	(10)
Net provision for income taxes	$ 2,639	$ 1,617	$ 807

Significant components of deferred taxes at December 31, 2005 and 2004 are as follows:

	2005	2004
	(Dollars in thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 1,482	$ 1,140
Capital lease	102	88
Deferred gain on sale-leaseback	33	39
Income from deferred data processing payment	72	
Nondeductible accrued expenses	3	231
Net unrealized losses on available-for-sale securities	454	66
Other	24	20
Total deferred tax assets	2,170	1,584
Deferred tax liabilities:		
Premises and equipment	(126)	(288)
Leased property	(967)	
Core deposit intangible	(259)	(265)
Prepaid expenses	(72)	(114)
Total deferred tax liabilities	(1,424)	(667)
Net recorded deferred tax assets	$ 746	$ 917

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NOTE 13 - OTHER NON-INTEREST EXPENSE

The major components of other non-interest expense for the years ended December 31, 2005, 2004 and 2003 are as follows:

	2005	2004	2003
Postage, printing and office supplies	$ 428,781	$ 317,654	$ 315,447
Advertising and promotion	274,264	134,581	139,874
Travel, meals, dues and subscriptions	200,269	180,588	161,591
Telephone	171,055	168,765	111,451
Data processing and technology	536,923	553,614	535,298
Professional fees and contracted services	964,601	841,414	444,915
Lawsuit settlement charge		600,000	
Other	1,277,017	988,089	626,337
Total	$ 3,852,910	$ 3,784,705	$ 2,334,913

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, 2005 and 2004, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2005, 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, 2005 and 2004 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, 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%
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%

	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, 2004:						
Total Capital to Risk Weighted Assets:						
Consolidated	$ 43,445	13.54%	$ 25,674	8.00%	$ N/A	N/A
American Community Bank	26,080	9.88%	21,107	8.00%	26,384	10.00%
First National Bank of the Carolinas	8,414	14.40%	4,675	8.00%	5,843	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	35,329	11.01%	12,837	4.00%	N/A	N/A
American Community Bank	23,335	8.84%	10,553	4.00%	15,830	6.00%
First National Bank of The Carolinas	7,684	13.15%	2,337	4.00%	3,506	6.00%
Tier 1 Capital to Average Assets:						
Consolidated	35,329	9.45%	14,948	4.00%	N/A	N/A
American Community Bank	23,335	7.64%	12,221	4.00%	15,277	5.00%
First National Bank of The Carolinas	7,684	10.59%	2,903	4.00%	3,629	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, 2005 is as follows:

Financial instruments whose contract amounts represent credit risk:	
Capital South Partnership commitment	$ 250,000
Standby letters of credit	3,151,129
Commitments to extend credit	8,503,718
Undisbursed lines of credit	48,974,179
Undisbursed portion of construction loans	24,168,046

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 cannot be determined at this time.

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, trust preferred securities 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

For certain homogenous categories of loans, such as residential mortgages, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. 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 Federal Home Loan Bank stock and Bankers Bank stock approximates fair value based on the redemption provisions of the Banks.

Accrued Interest

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 Sold and Junior Subordinated Debentures

The fair values are based on discounting expected cash flows at the interest rate for debt with the same or similar remaining maturities and collateral requirements.

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, 2005 and 2004:

	2005		2004	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(Dollars in thousands)			
Financial assets				
Cash and due from banks	$ 12,495	$ 12,495	$ 9,511	$ 9,511
Interest-earning deposits with banks	4,454	4,454	6,521	6,521
Securities available for sale	62,127	62,127	51,833	51,833
Securities held to maturity	2,180	2,173	2,186	2,193
Loans	328,376	328,318	304,500	305,009
Accrued interest receivable	2,432	2,432	1,697	1,697
Non-marketable equity securities	1,468	1,468	1,512	1,512
Financial liabilities:				

Deposits	345,401	303,630	306,665	284,540
Borrowings	11,111	10,856	12,778	12,899
Capital lease obligation	1,702	1,702	1,710	1,710
Securities sold under agreement to repurchase and federal funds sold	11,733	11,733	25,763	25,763
Junior subordinated debentures	13,918	14,299	13,918	13,471

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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 3.0% of each employee s salary. Contributions are funded when accrued. Expenses totaled $87,483, $68,430 and $54,494 for the years ended December 31, 2005, 2004 and 2003, respectively.

Stock Option Plans

The Company has four stock option plans; the 1999 Employee Stock Option Plan (the Employee Plan), the 1999 Director Stock Option Plan (the Director Plan), the 2001 Incentive Stock Option Plan (the Incentive Plan), and the 2002 Non-statutory Stock Option Plan (the Non-statutory Plan). The 1999 plans each make available options to purchase 246,191 shares of the Company s common stock for an aggregate number of common shares reserved for options under these plans of 492,382. The options granted under the Director Plan vested immediately at the time of grant, while the options granted under the Employee Plan vest over a five-year period. The Incentive Plan makes available options to purchase 210,300 shares of the Company s common stock at a price not less than the fair value of the Company s common shares on the date of grant. The options granted under the Incentive Plan vest over a five-year period. During 2002 the Company adopted, with shareholder approval, the Non-statutory Plan. The Non-statutory plan makes available options to purchase 37,500 shares on the date of grant. The options granted to directors under the Non-statutory Option Plan vest over a three-year period, beginning one year from the date of grant.

Unexercised options for all of the aforementioned plans expire ten years after the date of grant. The exercise price of all options granted to date is the fair value of the Company s common shares on the date of grant. A summary of the Company s option plans as of and for the years ended December 31, 2005, 2004, and 2003 after retroactively adjusting for the stock dividend paid in February 2006, is as follows:

		Outstanding Options	
	Shares available for future grants	Number outstanding	Weighted average exercise price
At December 31, 2002	96,141	542,940	$ 5.51
Options granted	(28,500)	28,500	7.93
Options exercised		(1,999)	5.60
Options forfeited	8,910	(8,910)	5.08
At December 31, 2003	76,551	560,531	5.65
FNB options		293,739	3.70
Options granted	(72,051)	72,051	8.89
Options exercised		(52,496)	4.00
Options forfeited	12,198	(12,198)	5.73
At December 31, 2004	16,698	861,627	5.39
Additional shares authorized under 2001 Incentive Option Plan	75,000		

Options granted			
Options exercised		(137,418)	3.89
Options forfeited	81,078	(81,078)	8.92
At December 31, 2005	172,776	643,131	$ 5.57

	2005	**2004**	**2003**
Assumptions in estimating option values:			
Risk-free interest rate		2.25%	2.25%
Dividend yield		.97%	.97%
Volatility		14.50%	14.70%
Expected life		7 years	7 years

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NOTE 17 - EMPLOYEE AND DIRECTOR BENEFIT PLANS (Continued)

At December 31, 2005, there were 566,573 exercisable options with a weighted average exercise price of $5.25. At December 31, 2004, there were 729,600 exercisable options with a weighted average exercise price of $4.95. Of the total options outstanding at December 31, 2005 and 2004, the remaining average contractual lives were five years. The range of exercise prices associated with options outstanding at December 31, 2005 was $3.70 to $5.55 and $5.60 to $8.92.

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 - 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.

NOTE 19 - PARENT COMPANY FINANCIAL DATA

Following are condensed financial statements of American Community Bancshares, Inc. as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003:

Condensed Statements of Financial Condition

December 31, 2005 and 2004

	2005	2004
Assets:		
Cash and due from banks	$ 207,728	$ 142,983
Interest earning deposits with banks	16,193,700	7,696,900
Investment in securities available for sale	403,469	403,469
Investment in American Community Bank	46,037,722	23,213,898
Investment in First National Bank of the Carolinas		18,318,937
Investment in American Community Capital Trust I	108,260	108,260
Investment in American Community Capital Trust II, Ltd.	310,000	310,000
Due from American Community Bank		650,969
Other assets	1,543,608	256,182
Total Assets	$ 64,804,487	$ 51,101,598

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
Due to First National Bank of the Carolinas		211,222
Total Liabilities	13,918,260	14,129,482
Stockholders Equity:		
Common stock	4,568,673	3,489,249
Additional paid-in capital	38,881,954	29,054,479
Retained earnings	8,178,434	4,531,618
Accumulated other comprehensive loss	(742,834)	(103,230)
Total stockholders equity	50,886,227	36,972,116
Total Liabilities and Stockholders Equity	$ 64,804,487	$ 51,101,598

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NOTE 19 - PARENT COMPANY FINANCIAL DATA (Continued)

Condensed Statements of Operations

Years Ended December 31, 2005, 2004 and 2003

	2005	2004	2003
Interest income:			
Interest-earning deposits with banks	$ 810,969	$ 664,925	$ 341,346
Interest expense:			
Junior subordinated debentures issued to American Community Capital Trust I and II	965,055	779,595	344,751
Non-interest income:			
Equity in earnings of American Community Bank	4,644,491	2,162,823	1,440,542
Equity in earnings of First National Bank of the Carolinas		677,000	
Total non-interest income	4,644,491	2,839,823	1,440,542
Non-interest expense:			
Professional fees	41,851	18,138	27,380
Other	27,019	30,811	21,742
Total non-interest expense	68,870	48,949	49,122
Income before taxes	4,421,535	2,676,204	1,388,015
Income tax benefit	(86,000)	(67,000)	
Net income	$ 4,507,535	$ 2,743,204	$ 1,388,015

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NOTE 19 - PARENT COMPANY FINANCIAL DATA (Continued)

Condensed Statements of Cash Flows

Years Ended December 31, 2005, 2004 and 2003

	2005	2004	2003
Cash flows from operating activities:			
Net income	$ 4,507,535	$ 2,743,204	$ 1,388,015
Equity in earnings of subsidiaries	(4,644,491)	(2,839,823)	(1,440,542)
Decrease (increase) in other assets	(1,287,426)	195,835	(918,743)
Net cash provided (used) by operating activities	(1,424,382)	99,216	(971,270)
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)	
Investment in American Community Capital Trust II			(310,000)
Net cash used by investing activities	(500,000)	(10,537,744)	(310,000)
Cash flows from financing activities:			
Junior subordinated debentures issued to American Community Capital Trust II			10,310,000
Repayment of advances from subsidiaries	439,747		
Proceeds from advances from subsidiaries		211,222	
Proceeds from issuance of common stock	10,906,899	327,673	11,197
Cash dividends paid on common stock	(860,719)	(282,571)	(225,950)
Net cash provided by financing activities	10,485,927	256,324	10,095,247
Increase (decrease) in cash and cash equivalents	8,561,545	(10,182,204)	8,813,977
Cash and cash equivalents, beginning	7,839,883	18,022,087	9,208,110
Cash and cash equivalents, ending	$ 16,401,428	$ 7,839,883	$ 18,022,087

NOTE 20 - 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.

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NOTE 20 - BUSINESS COMBINATION (Continued)

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

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 years ended December 31, 2004 and 2003, assuming the acquisition had occurred at the beginning of the fiscal year 2003.

	2004		2003	
	(In thousands, except per share data)			
Net interest income	$	12,897	$	10,947
Net income		3,074		1,856

Net income per common share - basic	.59	.36
Net income per common share - diluted	.53	.35

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.

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Years Ended December 31, 2005, 2004 and 2003

NOTE 21 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill arose from the 2004 purchase of First National. Pursuant to SFAS No. 142, goodwill acquired will not be amortized but will be subject to an annual impairment test. Goodwill recorded by the Company in conjunction with the business combination of First National amounted to $9,838,173 as of December 31, 2005.

Other intangible assets were acquired in conjunction with the purchase of First National. The initial deposit premium associated with the purchase of First National was $854,329. Amortization of these other intangible assets amounted to $106,800 and $75,650 for the years ended December 31, 2005 and 2004, respectively. The estimated amortization expense on intangible assets acquired from First National for the years ending December 31, 2006 through 2008 is $106,800 annually. The Company had no other intangible assets.

NOTE 22 SUBSEQUENT EVENT

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.

NOTE 23 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, 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

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AMERICAN COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2005, 2004 and 2003

NOTE 23 QUARTERLY FINANCIAL INFORMATION (UNAUDITED) (Continued)

	Year Ended December 31, 2004			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands except per share data)			
Interest income	$ 5,290	$ 4,971	$ 4,421	$ 3,534
Interest expense	1,780	1,602	1,492	1,346
Net interest income	3,510	3,369	2,929	2,188
Provision for loan losses	158	157	140	118
Net interest income after provision for loan loss	3,352	3,212	2,789	2,070
Non-interest income	884	869	882	702
Total non-interest expense	3,168	2,588	2,630	2,014
Income before income taxes	1,068	1,493	1,041	758
Provision for income taxes	392	556	386	283
Net income	$ 676	$ 937	$ 655	$ 475
Net income per share				
Basic	$ 0.13	$ 0.18	$ 0.13	$ 0.11
Diluted	0.11	0.17	0.12	0.10
Common stock price				
High	$ 11.21	$ 8.81	$ 9.43	$ 9.47
Low	8.61	7.58	7.85	8.09

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ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

ITEM 9A CONTROLS AND PROCEDURES

Management, including the Company s President and Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Company s President and Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

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.

ITEM 9B OTHER INFORMATION

Not applicable.

PART III

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained in the sections captioned Proposal 2: Election of Directors, Executive Officers, and Required Reports of Beneficial Ownership in the 2006 Annual Meeting Proxy Statement is incorporated herein by reference.

The Company has adopted a code of ethics that applies, among others, to its principal executive officer and principal financial officer. The Company s code of ethics is available at http://www.americancommunitybank.com.

ITEM 11 EXECUTIVE COMPENSATION

The information contained in the sections captioned Director Compensation and Executive Compensation in the 2006 Annual Meeting Proxy Statement is incorporated herein by reference.

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ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information contained in the sections captioned Ownership of Voting Securities in the 2005 Annual Meeting Proxy Statement is incorporated herein by reference.

Set forth below is certain information regarding the Registrant s various stock option plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)		Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1999 Incentive: 217,715	$	6.04	198
	1999 Non-statutory: 177,112	$	5.55	69,078
	2001 Incentive: 89,520	$	6.74	102,000
	2002 Non-statutory: 34,000	$	6.50	1,500
	1997 FNB Plan: 124,784	$	3.70	-0-
Equity compensation plans not approved by security holders	None		None	None
Total	643,131	$	5.57	172,776

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained in the sections captioned Director Relationships and Indebtedness of and Transactions with Management in the 2006 Annual Meeting Proxy Statement is incorporated herein by reference.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information contained in the sections captioned Report of the Audit Committee and Proposal 3: Ratification of Independent Public Accountants in the 2006 Annual Meeting Proxy Statement are incorporated herewith by reference.

PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Index to Exhibits

EXHIBIT NUMBER	**DESCRIPTION OF EXHIBIT**
3.1	Registrant s Articles of Incorporation*
3.2	Registrant s Bylaws*
4.1	Specimen Stock Certificate*

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4.2	Specimen Warrant Certificate**
4.3	Warrant Agreement**
10.1	Employment Agreement of Randy P. Helton*
10.2	1999 Incentive Stock Option Plan*
10.3	1999 Nonstatutory Stock Option Plan*
10.4	401(k) Plan*
10.5(i)	Issuance of Trust Preferred Securities by American Community Capital Trust I: Indenture, dated December 31, 2001**
10.5(ii)	Issuance of Trust Preferred Securities by American Community Capital Trust I: Expense Agreement, dated December 31, 2001**
10.5(iii)	Issuance of Trust Preferred Securities by American Community Capital Trust I: Amended and Restated Trust Agreement, dated March 1, 2002**
10.5(iv)	Issuance of Trust Preferred Securities by American Community Capital Trust I: Supplemental Indenture, dated March 1, 2002**
10.5(v)	Issuance of Trust Preferred Securities by American Community Capital Trust I: Subordinated Debenture, dated March 1, 2002 ($2,061,860) **
10.5(vi)	Issuance of Trust Preferred Securities by American Community Capital Trust I: Subordinated Debenture, dated March 1, 2002 ($1,546,000) **
10.5(vii)	Issuance of Trust Preferred Securities by American Community Capital Trust I: Amended and Restated Preferred Securities Guarantee Agreement, dated March 1, 2002**
10.5(viii)	Issuance of Trust Preferred Securities by American Community Capital Trust II, Ltd.: Amended and Restated Declaration of Trust, dated December 15, 2003***
10.5(ix)	Issuance of Trust Preferred Securities by American Community Capital Trust II, Ltd.: Indenture, dated December 15, 2003***

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10.5(x)	Issuance of Trust Preferred Securities by American Community Capital Trust II, Ltd.: Guarantee Agreement, dated December 31, 2003***
10.5(xi)	Issuance of Trust Preferred Securities by American Community Capital Trust II, Ltd.: Form of Floating Rate Junior Subordinated Debenture of American Community Bancshares, Inc. (incorporated by reference to Exhibit A of Exhibit 10.5(ix)) ***
10.6	2001 Incentive Stock Option Plan****
10.7	2002 Nonstatutory Stock Option Plan*****
10.8	Dividend Reinvestment and Common Stock Purchase Plan*******
21	Subsidiaries of Registrant (Filed herewith)
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)
32(i)	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes Oxley Act (Filed herewith)
32(ii)	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes Oxley Act (Filed herewith)
99	Registrant s Definitive Proxy Statement******

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* Incorporated by reference from exhibits to Registrant s Registration Statement on Form S-4 (File No. 333-31148)
** Incorporated by reference from exhibits to Registrant s Registration Statement on Form SB-2 (File No. 333-84484)
*** Incorporated by reference from Registrant s Current Report on Form 8-K dated December 18, 2003 (File No. 000-30517)
**** Incorporated by reference from Exhibit 10.5 to Registrant s Annual Report on Form 10-K for the year ended December 31, 2000.
***** Incorporated by reference from Registrant s Registration Statement on Form S-8 (File No. 333-101208)
****** Filed with the Commission pursuant to Rule 14a-6.
******* Incorporated by reference from Exhibit 99.1 to Registrant s Statement on Form S-3D (File No. 333-129991)

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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.

March 25, 2006	/s/ Randy P. Helton Randy P. Helton President and Chief Executive Officer

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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	March 25, 2006
Randy P. Helton, President,	
Chief Executive Officer and Director	
/s/ Dan R. Ellis, Jr.	March 25, 2006
Dan R. Ellis, Jr., Chief Financial Officer	
/s/ Robert D. Dinsmore	March 25, 2006
Robert D. Dinsmore, Director	
/s/ Frank L. Gentry	March 25, 2006
Frank L. Gentry, Director	
/s/ Thomas J. Hall	March 25, 2006
Thomas J. Hall, Director	
/s/ Larry S. Helms	March 25, 2006
Larry S. Helms, Director	
/s/ Bill H. Mason	March 25, 2006
Bill H. Mason, Director	
/s/ V. Stephen Moss	March 25, 2006
V. Stephen Moss, Director	
/s/ Peter A. Pappas	March 25, 2006
Peter A. Pappas, Director	
/s/ L. Steven Phillips	March 25, 2006
L. Steven Phillips, Director	
/s/ Alison J. Smith	March 25, 2006
Alison J. Smith, Director	
/s/ L. Carlton Tyson	March 25, 2006
L. Carlton Tyson, Director	
/s/ David D. Whitley	March 25, 2006
David D. Whitley, Director	
/s/ Gregory N. Wylie	March 25, 2006

Gregory N. Wylie, Director

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****** Filed with the Commission pursuant to Rule 14a-6.
******* Incorporated by reference from Exhibit 99.1 to Registrant s Statement on Form S-3D (File No. 333-129991)

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