

FIRST RELIANCE BANCSHARES INC  
Form 10-Q  
May 15, 2009

FIRST RELIANCE BANCSHARES, INC.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C.

(Mark One)

FORM 10-Q

☒

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2009

OR

☐

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-49757

FIRST RELIANCE BANCSHARES, INC.

(Exact name of small business issuer as specified in its charter)

South Carolina  
(State or other jurisdiction of  
incorporation or organization)

80-0030931  
(I.R.S. Employer  
Identification No.)

2170 West Palmetto Street  
Florence, South Carolina 29501  
(Address of principal executive  
offices, including zip code)

(843) 656-5000  
(Issuer's telephone number, including area code)

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date:

3,587,426 shares of common stock, par value \$0.01 per share, as of April 30, 2009

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No.

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes " No "

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒  
(Do not check if a smaller reporting company)

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

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## FIRST RELIANCE BANCSHARES, INC.

## Condensed Consolidated Balance Sheets

	March 31, 2009 (Unaudited)	December 31, 2008 (Audited)
<b>Assets</b>		
Cash and cash equivalents:		
Cash and due from banks	\$ 31,683,883	\$ 5,451,607
Federal funds sold	-	257,000
Total cash and cash equivalents	31,683,883	5,708,607
Investment securities:		
Securities available-for-sale	73,593,711	76,310,816
Nonmarketable equity securities	5,284,600	4,574,700
Total investment securities	78,878,311	80,885,516
Mortgage loans held for sale	24,250,382	9,589,081
Loans receivable	464,124,999	468,990,202
Less allowance for loan losses	(7,331,051)	(8,223,899)
Loans, net	456,793,948	460,766,303
Premises and equipment, net	26,462,326	28,612,022
Accrued interest receivable	2,462,465	2,653,260
Other real estate owned	1,423,582	379,950
Cash surrender value life insurance	11,091,634	10,986,484
Other assets	4,354,994	3,852,660
Total assets	\$ 637,401,525	\$ 603,433,883
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits		
Noninterest-bearing transaction accounts	\$ 48,085,212	\$ 39,467,609
Interest-bearing transaction accounts	34,414,993	34,708,951
Savings	85,396,666	110,629,005
Time deposits \$100,000 and over	190,458,083	137,444,867
Other time deposits	143,596,606	138,884,952
Total deposits	501,951,560	461,135,384
Securities sold under agreement to repurchase	864,994	8,197,451
Advances from Federal Home Loan Bank	69,500,000	78,000,000
Note payable	-	6,950,000
Junior subordinated debentures	10,310,000	10,310,000
Accrued interest payable	610,924	623,330
Other liabilities	1,205,844	791,960
Total liabilities	584,443,322	566,008,125
Shareholders' Equity		

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Preferred stock, no par value, authorized 10,000,000 shares:		
Series A cumulative perpetual preferred stock 15,349 and 0 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	14,389,600	-
Series B cumulative perpetual preferred stock 767 and 0 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	848,396	-
Common stock, \$0.01 par value; 20,000,000 shares authorized, 3,587,226 and 3,525,004 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	35,872	35,250
Nonvested restricted stock	(312,580)	(207,653)
Capital surplus	26,259,837	26,120,460
Treasury stock at cost at 11,454 and 10,829 shares at at March 31, 2009 and December 31, 2008, respectively	(163,433)	(159,777)
Retained earnings	11,840,186	11,839,005
Accumulated other comprehensive income (loss)	60,325	(201,527)
Total shareholders' equity	52,958,203	37,425,758
Total liabilities and shareholders' equity	\$ 637,401,525	\$ 603,433,883

See notes to condensed consolidated financial statements.

## FIRST RELIANCE BANCSHARES, INC.

Condensed Consolidated Statements of Income  
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
Interest income		
Loans, including fees	\$ 6,967,737	\$ 9,099,475
Investment securities		
Taxable	531,316	346,384
Nontaxable	313,418	327,610
Federal funds sold	983	1,893
Other interest income	9,599	51,290
Total	7,823,053	9,826,652
Interest expense		
Time deposits over \$100,000	1,192,567	2,037,053
Other deposits	1,622,844	1,902,095
Other interest expense	854,549	919,520
Total	3,669,960	4,858,668
Net interest income	4,153,093	4,967,984
Provision for loan losses	1,300,380	501,603
Net interest income after provision for loan losses	2,852,713	4,466,381
Noninterest income		
Service charges on deposit accounts	460,608	437,135
Gain on sale of mortgage loans	660,499	559,384
Brokerage fees	3,922	50,330
Income from bank owned life insurance	105,150	121,754
Other charges, commissions and fees	126,999	113,272
Loss on sale of other real estate owned	(15,892)	-
Gain on sale of fixed assets	86,810	-
Other non-interest income	265,021	49,919
Total	1,693,117	1,331,794
Noninterest expenses		
Salaries and benefits	2,808,915	2,944,751
Occupancy expense	355,857	339,703
Furniture and equipment expense	285,865	212,959
Other operating expenses	1,274,242	1,236,983
Total	4,724,879	4,734,396
Income (loss) before taxes	(179,049)	1,063,779
Income tax expense (benefit)	(192,914)	237,656
Net income	13,865	826,123
Preferred stock dividends	59,584	-
Deemed dividends on preferred stock resulting from net accretion of discount and amortization of premium	12,684	-
Net Income (loss) available to common shareholders	\$ (58,403)	\$ 826,123
Average common shares outstanding, basic	3,525,004	3,494,862
Average common shares outstanding, diluted	3,525,004	3,536,861

Basic earnings (loss) per share	\$	(0.02)	\$ 0.24
Diluted earnings (loss) per share	\$	(0.02)	\$ 0.23

See notes to condensed consolidated financial statements.



## FIRST RELIANCE BANCSHARES, INC.

Condensed Consolidated Statements of Shareholders' Equity and Comprehensive Income  
For the Three Months Ended March 31, 2009 and 2008  
(Unaudited)

	Preferred Stock	Common Stock	Capital Surplus	Treasury Stock	Nonvested Restricted Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2007	\$ -	\$ 34,946	\$ 25,875,012	\$ (145,198)	\$ (152,762)	\$ 11,417,275	\$ (1,369)	\$ 37,027,904
Adjustment to reflect the cumulative-effect of change in accounting for life insurance arrangements						(203,902)		(203,902)
Net income						826,123		826,123
Other comprehensive gain, net of tax expense of \$49,275							95,651	95,651
Comprehensive income								921,774
Non-vested restricted stock		141	22,455		(120,582)			(97,986)
Purchase of treasury stock				(11,777)				(11,777)
Exercise of stock options		45	150,457					150,502
Balance, March 31, 2008	\$ -	\$ 35,132	\$ 26,047,924	\$ (156,975)	\$ (273,344)	\$ 12,039,496	\$ 94,282	\$ 37,786,515
Balance, December 31,	\$ -	\$ 35,250	\$ 26,120,460	\$ (159,777)	\$ (207,653)	\$ 11,839,005	\$ (201,527)	\$ 37,425,758

2008

Issuance of Series A preferred stock, net of issuance cost of \$116,786	14,375,740								14,375,740
Issuance of Series B preferred stock, net of issuance cost \$6,902	849,572								849,572
Net income						13,865			13,865
Other comprehensive gain, net of tax expense of \$134,894							261,852		261,852
Comprehensive income									275,717
Accretion of Series A Preferred stock discount	13,860					(13,860)			-
Amortization of Series B Preferred stock premium	(1,176)					1,176			-
Non-vested restricted stock	622	139,377			(104,927)				35,072
Purchase of treasury stock					(3,656)				(3,656)
Balance, March 31, 2009	\$ 15,237,996	\$ 35,872	\$ 26,259,837	\$ (163,433)	\$ (312,580)	\$ 11,840,186	\$ 60,325	\$ 52,958,203	

See notes to condensed consolidated financial statements.

## FIRST RELIANCE BANCSHARES, INC.

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 13,865	\$ 826,123
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Provision for loan losses	1,300,380	501,603
Depreciation and amortization expense	269,374	287,706
Gain on sale of premises and equipment	(86,810)	-
Loss on sale of other real estate owned	15,892	-
Discount accretion and premium amortization	44,471	7,274
Disbursements for mortgage loans held for sale	(51,727,574)	(36,572,893)
Proceeds from mortgage loans held for sale	37,066,273	37,770,606
Decrease in interest receivable	190,795	115,207
Decrease in interest payable	(12,406)	(83,510)
Increase for cash surrender value of life insurance	(105,150)	(121,754)
Amortization of deferred compensation on restricted stock	35,072	(97,986)
Decrease (increase) in other assets	(562,383)	(609,713)