

FIRST RELIANCE BANCSHARES INC  
Form 10-Q  
August 13, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C.**

(Mark One) FORM 10-Q

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

For the Quarterly Period Ended June 30, 2012

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                      80-0030931  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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)

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

**4,096,774 shares of common stock, par value \$0.01 per share, as of July 31, 2012**

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

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**

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$ 1,760,694	\$ 2,134,864
Interest-bearing deposits with other banks	38,457,523	41,885,966
Total cash and cash equivalents	40,218,217	44,020,830
Time deposits in other banks	100,702	100,373
Securities available-for-sale	82,759,656	84,534,318
Nonmarketable equity securities	1,619,900	2,431,800
Total investment securities	84,379,556	86,966,118
Mortgage loans held for sale	1,591,851	2,863,297
Loans receivable	285,982,883	303,398,403
Less allowance for loan losses	(5,241,995 )	(7,743,470 )
Loans, net	280,740,888	295,654,933
Premises, furniture and equipment, net	24,945,055	25,205,064
Accrued interest receivable	1,541,441	1,938,807
Other real estate owned	22,261,300	22,135,921
Cash surrender value life insurance	12,418,506	12,228,829
Other assets	3,083,679	3,852,250
Total assets	\$ 471,281,195	\$ 494,966,422
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing transaction accounts	\$ 57,637,012	\$ 52,299,017
Interest-bearing transaction accounts	44,281,975	42,092,193
Savings	114,509,696	122,528,570
Time deposits \$100,000 and over	110,811,598	122,474,202
Other time deposits	71,980,673	88,422,515
Total deposits	399,220,954	427,816,497
Securities sold under agreement to repurchase	4,377,004	-
Advances from Federal Home Loan Bank	13,000,000	13,000,000
Junior subordinated debentures	10,310,000	10,310,000
Accrued interest payable	387,623	317,678

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Other liabilities	2,146,634	2,404,257
Total liabilities	429,442,215	453,848,432
Shareholders' Equity		
Preferred stock		
Series A cumulative perpetual preferred stock - 15,349 shares issued and outstanding	\$ 15,022,271	\$ 14,925,265
Series B cumulative perpetual preferred stock - 767 shares issued and outstanding	794,720	802,951
Series C cumulative mandatory convertible preferred stock - 2,293 shares issued and outstanding	2,293,000	2,293,000
Common stock, \$0.01 par value; 20,000,000 shares authorized, 4,096,774 and 4,084,400 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	40,968	40,844
Capital surplus	28,001,244	27,992,485
Treasury stock, at cost, 19,289 and 13,245 shares at June 30, 2012 and December 31, 2011, respectively	(182,072 )	(173,650 )
Nonvested restricted stock	(215,236 )	(320,196 )
Retained deficit	(5,934,886 )	(6,304,429 )
Accumulated other comprehensive income	2,018,971	1,861,720
Total shareholders' equity	41,838,980	41,117,990
Total liabilities and shareholders' equity	\$471,281,195	\$494,966,422

See notes to condensed consolidated financial statements

**FIRST RELIANCE BANCSHARES, INC****Condensed Consolidated Statements of Operations****(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30,	2011	June 30,	2011
	2012		2012	2011
Interest income:				
Loans, including fees	\$4,103,473	\$5,019,414	\$8,503,300	\$10,089,688
Investment securities:				
Taxable	462,383	367,080	927,033	672,240
Nontaxable	181,098	483,120	378,089	1,017,577
Other interest income	30,114	30,545	57,994	54,608
Total	4,777,068	5,900,159	9,866,416	11,834,113
Interest expense:				
Time deposits	957,333	1,317,783	2,009,891	2,829,527
Other deposits	104,504	303,128	259,138	567,448
Other interest expense	128,374	(15,821 )	257,027	62,764
Total	1,190,211	1,605,090	2,526,056	3,459,739
Net interest income	3,586,857	4,295,069	7,340,360	8,374,374
Provision for loan losses	-	282,010	600,000	523,124
Net interest income after provision for loan losses	3,586,857	4,013,059	6,740,360	7,851,250
Noninterest income:				
Service charges on deposit accounts	445,903	447,228	850,518	892,790
Gain on sales of mortgage loans	342,583	178,603	552,738	301,648
Income from bank owned life insurance	95,130	100,176	189,677	200,638
Other charges, commissions and fees	257,536	207,190	469,009	399,243
Gain on sale of securities	347,010	535,581	507,787	580,856
Other non-interest income	263,486	121,086	436,360	221,382
Total	1,751,648	1,589,864	3,006,089	2,596,557
Noninterest expenses:				
Salaries and employee benefits	2,047,370	2,183,814	3,796,265	4,559,859
Occupancy expense	374,494	359,117	732,261	736,313
Furniture and equipment expense	393,277	312,952	752,936	627,622
Other operating expenses	2,443,534	2,451,228	4,006,669	4,407,217
Total	5,258,675	5,307,111	9,288,131	10,331,011
Income before income taxes	79,830	295,812	458,318	116,796

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Income tax benefit	-	(125,708 )	-	(419,394 )
Net income	79,830	421,520	458,318	536,190
Preferred stock dividends	249,247	249,247	498,495	498,495
Deemed dividends on preferred stock resulting from net accretion of discount and amortization of premium	44,388	44,388	88,776	88,288
Net income (loss) available to common shareholders	\$(213,805 )	\$127,885	\$(128,953 )	\$(50,593 )
Average common shares outstanding, basic	4,096,774	4,104,808	4,091,314	4,107,626
Average common shares outstanding, diluted	4,096,774	4,457,577	4,091,314	4,107,626
Basic income (loss) per share	\$(0.05 )	\$0.03	\$(0.03 )	\$(0.01 )
Diluted income (loss) per share	\$(0.05 )	\$0.03	\$(0.03 )	\$(0.01 )

See notes to condensed consolidated financial statements



**FIRST RELIANCE BANCSHARES, INC****Condensed Consolidated Statements of Comprehensive Income****(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income from operations	\$79,830	\$421,520	\$458,318	\$536,190
Other Comprehensive income, net of tax:				
Unrealized holding gains on available-for-sale securities arising during period	469,994	1,547,065	492,390	1,734,878
Reclassification adjustment for gains realized in net income from operations	(229,026)	(353,483 )	(335,139)	(383,364 )
Other comprehensive income	240,968	1,193,582	157,251	1,351,514
Comprehensive income	\$320,798	\$1,615,102	\$615,569	\$1,887,704

See notes to condensed consolidated financial statements

**FIRST RELIANCE BANCSHARES, INC**

**Condensed Consolidated Statements of Shareholders' Equity**

**For the Six Months Ended June 30, 2012 and 2011**

**(Unaudited)**

	Preferred Stock	Common Stock	Capital Surplus	Treasury Stock	Nonvested Restricted Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2010	\$ 17,843,176	\$ 41,159	\$ 28,140,094	\$ (168,864)	\$ (679,264)	\$ 4,002,469	\$ (586,926 )	\$ 48,591,844