

FIRST RELIANCE BANCSHARES INC  
Form 10-Q  
November 14, 2014

UNITED STATES

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 September 30, 2014

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)

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

**4,738,370 shares of common stock, par value \$0.01 per share, as of October 31, 2014**

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

**INDEX**

	<b>Page No.</b>
 <b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets - September 30, 2014 and December 31, 2013</u>	3
<u>Condensed Consolidated Statements of Operations – Three and nine months ended September 30, 2014 and 2013</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) – Three and nine months ended September 30, 2014 and 2013</u>	5
<u>Condensed Consolidated Statements of Shareholders’ Equity - Nine months ended September 30, 2014 and 2013</u>	6
<u>Condensed Consolidated Statements of Cash Flows - Nine months ended September 30, 2014 and 2013</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3. <u>Quantitative and Qualitative Disclosure about Market Risk</u>	44
Item 4. <u>Controls and Procedures</u>	44
 <b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	45
Item 1A. <u>Risk Factors</u>	45
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
Item 6. <u>Exhibits</u>	45

**FIRST RELIANCE BANCSHARES, INC.****Condensed Consolidated Balance Sheets**

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$4,354,369	\$3,548,974
Interest-bearing deposits with other banks	20,207,489	14,698,851
Total cash and cash equivalents	24,561,858	18,247,825
Time deposits in other banks	101,409	101,207
Securities available-for-sale	13,537,545	12,144,843
Securities held-to-maturity (Estimated fair value of \$33,247,693 and \$36,951,934 at September 30, 2014 and December 31, 2013, respectively)	32,626,235	36,951,934
Nonmarketable equity securities	1,142,500	1,594,900
Total investment securities	47,306,280	50,691,677
Mortgage loans held-for-sale	2,568,011	2,248,252
Loans receivable	252,090,858	238,502,131
Less allowance for loan losses	(2,900,341 )	(2,894,153 )
Loans, net	249,190,517	235,607,978
Premises, furniture and equipment, net	23,475,800	24,333,616
Accrued interest receivable	1,048,362	1,129,881
Other real estate owned	2,009,212	8,932,634
Cash surrender value life insurance	13,197,741	12,945,693
Other assets	4,327,599	1,169,368
Total assets	\$367,786,789	\$355,408,131
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing transaction accounts	\$69,328,528	\$65,576,524
Interest-bearing transaction accounts	61,570,826	46,046,043
Savings accounts	85,834,789	86,247,410
Time deposits \$100,000 and over	37,137,622	39,934,745
Other time deposits	38,453,965	44,610,301
Total deposits	292,325,730	282,415,023
Securities sold under agreement to repurchase	7,639,859	4,876,118
Advances from Federal Home Loan Bank	17,000,000	23,000,000
Junior subordinated debentures	10,310,000	10,310,000

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Accrued interest payable	747,529	587,649
Other liabilities	3,675,658	2,126,597
Total liabilities	331,698,776	323,315,387
Shareholders' Equity		
Preferred stock		
Series A cumulative perpetual preferred stock - 15,349 shares issued and outstanding at September 30, 2014 and December 31, 2013	15,179,709	15,145,597
Series B cumulative perpetual preferred stock - 767 shares issued and outstanding at September 30, 2014 and December 31, 2013	767,000	769,894
Common stock, \$0.01 par value; 20,000,000 shares authorized, 4,738,370 and 4,568,695 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	47,384	45,687
Capital surplus	30,909,652	30,609,281
Treasury stock, at cost, 35,176 and 29,846 shares at September 30, 2014 and December 31, 2013, respectively	(205,512 )	(201,686 )
Nonvested restricted stock	(426,091 )	(32,138 )
Retained deficit	(10,315,250 )	(14,447,907 )
Accumulated other comprehensive income	131,121	204,016
Total shareholders' equity	36,088,013	32,092,744
Total liabilities and shareholders' equity	\$ 367,786,789	\$ 355,408,131

See notes to condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Interest income:				
Loans, including fees	\$3,461,473	\$3,246,099	\$10,058,113	\$10,090,301
Investment securities:				
Taxable	278,023	272,918	846,326	935,158
Nontaxable	28,512	16,987	85,612	16,987
Other interest income	27,200	20,295	56,956	73,230
Total	3,795,208	3,556,299	11,047,007	11,115,676
Interest expense:				
Time deposits	147,846	376,271	562,813	1,502,759
Other deposits	31,971	49,458	97,798	173,446
Other interest expense	64,956	122,005	244,194	362,023
Total	244,773	547,734	904,805	2,038,228
Net interest income	3,550,435	3,008,565	10,142,202	9,077,448
Provision for loan losses	51,896	609,808	97,826	609,808
Net interest income after provision for loan losses	3,498,539	2,398,757	10,044,376	8,467,640
Noninterest income:				
Service charges on deposit accounts	421,013	435,616	1,204,042	1,252,816
Gain on sales of mortgage loans	287,752	303,781	791,324	877,822
Income from bank owned life insurance	84,276	86,908	252,048	258,675
Other charges, commissions and fees	272,496	271,658	807,392	739,322
Gain on sale of securities	-	-	5,321	33,917
Other non-interest income	100,038	82,617	246,828	252,043
Total	1,165,575	1,180,580	3,306,955	3,414,595
Noninterest expenses:				
Salaries and employee benefits	1,741,970	1,939,545	5,395,856	5,845,209
Occupancy expense	372,572	390,355	1,125,353	1,123,502
Furniture and equipment expense	371,530	435,846	1,178,101	908,688
Other operating expenses	1,943,925	3,283,492	4,699,215	6,656,392
Total	4,429,997	6,049,238	12,398,525	14,533,791
Net income (loss) before income taxes	234,117	(2,469,901)	952,806	(2,651,556)

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Income tax benefit	(3,211,069)	-	(3,211,069)	-
Net income (loss)	3,445,186	(2,469,901)	4,163,875	(2,651,556)
Preferred stock dividends	362,610	254,449	857,595	752,944
Deemed dividends on preferred stock resulting from net accretion of discount and amortization of premium	-	44,876	31,218	133,164
Net income (loss) available to common shareholders	\$3,082,576	\$(2,769,226)	\$3,275,062	\$(3,537,664)
Average common shares outstanding, basic	4,571,726	4,413,119	4,570,257	4,202,251
Average common shares outstanding, diluted	4,665,290	4,413,119	4,648,535	4,202,251
Income (loss) per common share:				
Basic income (loss) per share	\$0.67	\$(0.63)	\$0.72	\$(0.84)
Diluted income (loss) per share	0.66	(0.63)	0.70	(0.84)

See notes to condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income (loss) from operations	\$3,445,186	\$(2,469,901)	\$4,163,875	\$(2,651,556)
Other comprehensive loss, net of tax:				
Securities available-for-sale				
Unrealized holding gains (losses) arising during the period	7,988	(593,067 )	(53,186 )	(1,735,378)
Income tax expense (benefit)	2,716	(201,643 )	(18,083 )	(535,587 )
Net of income taxes	5,272	(391,424 )	(35,103 )	(1,199,791)
Reclassification adjustment for gains realized in net income from operations	-	-	5,321	33,917
Income tax expense	-	-	1,809	11,532
Net of income taxes	-	-	3,512	22,385
Other-than-temporary impairment on available-for-sale securities	-	-	-	(70,000 )
Income tax benefit	-	-	-	(8,678 )
Net of income taxes	-	-	-	(61,322 )
Other comprehensive income (loss) attributable to securities available-for-sale	5,272	(391,424 )	(38,615 )	(1,160,854)
Securities held-to-maturity				
Amortization of net unrealized gains capitalized on securities transferred from available-for-sale	(13,697 )	-	(51,939 )	-
Income tax benefit	(4,657 )	-	(17,659 )	-
Net of income taxes	(9,040 )	-	(34,280 )	-
Other comprehensive loss	(3,768 )	(391,424 )	(72,895 )	(1,160,854)
Comprehensive income (loss)	\$3,441,418	\$(2,861,325)	\$4,090,980	\$(3,812,410)

See notes to condensed consolidated financial statements



**FIRST RELIANCE BANCSHARES, INC.****Condensed Consolidated Statements of Shareholders' Equity****For the Nine months ended September 30, 2014 and 2013****(Unaudited)**

	Preferred Stock	Common Stock	Capital Surplus	Treasury Stock	Nonvested Restricted Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2012	\$ 18,199,743	\$ 40,949	\$ 27,991,132	\$ (182,234)	\$ (123,466)	\$ (6,207,116 )	\$ 1,478,919	\$ 41,197,927
Net loss						(2,651,556 )		(2,651,556 )
Changes in unrealized gains and losses on securities							(1,160,854)	(1,160,854 )
Expense of auctioning Series A and Series B Preferred stock	(169,291 )							(169,291 )
Accretion of Series A Preferred stock discount	145,509					(145,509 )		-
Amortization of Series B Preferred stock premium	(12,345 )					12,345		-
Conversion of Series C	(2,293,000 )	4,709	2,614,513			(326,222 )		-

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Preferred stock to Common stock									
Issuance of common stock		5	997					1,002	
Net Change in Restricted Stock		4	(735	)	83,388			82,657	
Purchase of treasury stock				(19,400	)			(19,400	
Balance, September 30, 2013	\$ 15,870,616	\$ 45,667	\$ 30,605,907	\$(201,634)	\$(40,078	)	\$(9,318,058	) \$ 318,065	\$ 37,280,485
Balance, December 31, 2013	\$ 15,915,491	\$ 45,687	\$ 30,609,281	\$(201,686)	\$(32,138	)	\$(14,447,907)	\$ 204,016	\$ 32,092,744
Net income							4,163,875		4,163,875
Changes in unrealized gains and losses on securities							(72,895	)	(72,895
Accretion of Series A Preferred stock discount	34,112								