

FIRST RELIANCE BANCSHARES INC
Form 10-Q
May 15, 2008

**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, 2008

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 incorporation or organization)	(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:

3,513,324 shares of common stock, par value \$0.01 per share, as of May 1, 2008

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 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. (Check one):

Large acceleratedAccelerated filer
filer
Non-accelerated filerSmaller 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.

FIRST RELIANCE BANCSHARES, INC.**INDEX**

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets - March 31, 2008 and December 31, 2007	3
Condensed Consolidated Statements of Income - Three months ended March 31, 2008 and 2007	4
Condensed Consolidated Statements of Shareholders' Equity and Comprehensive Income - Three months ended March 31, 2008 and 2007	5
Condensed Consolidated Statements of Cash Flows - Three months ended March 31, 2008 and 2007	6
Notes to Condensed Consolidated Financial Statements	7-11
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12-30
Item 3. Quantitative and Qualitative Disclosure About Market Risk	31
Item 4T. Controls and Procedures	31
<u>PART II. OTHER INFORMATION</u>	
Item 1. Legal Proceedings	32
Item 1A. Risk Factors	32
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	32
Item 3. Defaults Upon Senior Securities	32
Item 4. Submission of Matters to a Vote of Securities Holders	32
Item 5. Other Information	32
Item 6. Exhibits	32

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

	March 31, 2008 (Unaudited)	December 31, 2007 (Audited)
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$ 7,929,684	\$ 7,164,650
Securities available-for-sale	57,630,118	58,580,313
Nonmarketable equity securities	4,372,200	3,930,400
Total investment securities	62,002,318	62,510,713
Loans held for sale	18,403,137	19,600,850
Loans receivable	473,069,194	468,137,690
Less allowance for loan losses	(5,539,601)	(5,270,607)
Loans, net	467,529,593	462,867,083
Premises and equipment, net	23,713,588	22,233,746
Accrued interest receivable	2,977,560	3,092,767
Other real estate owned	327,950	196,950
Cash surrender value life insurance	10,662,027	10,540,273
Other assets	4,047,044	3,497,180
Total assets	\$ 597,592,901	\$ 591,704,212
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing transaction accounts	\$ 45,178,443	\$ 43,542,528
Interest-bearing transaction accounts	31,058,228	39,450,393
Savings	90,229,421	85,819,481
Time deposits \$100,000 and over	185,683,283	169,825,252
Other time deposits	97,861,715	110,860,061
Total deposits	450,011,090	449,497,715
Securities sold under agreement to repurchase	7,858,845	7,927,754
Federal funds purchased	11,482,000	13,359,000
Advances from Federal Home Loan Bank	73,500,000	69,000,000
Note payable	3,000,000	3,000,000
Junior subordinated debentures	10,310,000	10,310,000
Accrued interest payable	684,067	767,577
Other liabilities	2,960,384	814,262
Total liabilities	559,806,386	554,676,308
Shareholders' Equity		
Common stock, \$0.01 par value; 20,000,000 shares authorized, 3,513,174 and 3,494,646 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	35,132	34,946

Edgar Filing: FIRST RELIANCE BANCSHARES INC - Form 10-Q

Nonvested restricted stock	(273,344)	(152,762)
Capital surplus	26,047,924	25,875,012
Treasury stock (10,571 shares at cost at December 31, 2007)	(156,975)	(145,198)
Retained earnings	12,039,496	11,417,275
Accumulated other comprehensive income	94,282	(1,369)
Total shareholders' equity	37,786,515	37,027,904
Total liabilities and shareholders' equity	\$ 597,592,901	\$ 591,704,212

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2008	2007
Interest income		
Loans, including fees	\$ 9,099,475	\$ 7,892,673
Investment securities		
Taxable	346,384	234,334
Nontaxable	327,610	170,141
Federal funds sold	1,893	78,659
Other interest income	51,290	40,305
Total	9,826,652	8,416,112
Interest expense		
Time deposits over \$100,000	2,037,053	1,392,470
Other deposits	1,902,095	2,187,668
Other interest expense	919,520	447,293
Total	4,858,668	4,027,431
Net interest income	4,967,984	4,388,681
Provision for loan losses	501,603	135,234
Net interest income after provision for loan losses	4,466,381	4,253,447
Noninterest income		
Service charges on deposit accounts	437,135	442,670
Gain on sale of mortgage loans	559,384	470,242
Brokerage fees	50,330	40,860
Income from bank owned life insurance	121,754	100,740
Other charges, commissions and fees	113,272	77,762
Gain on securities available for sale	-	1,021
Gain (loss) on sale of other real estate	-	9,365
Gain on sale of fixed assets	-	14,415
Other non-interest income	49,919	36,110
Total	1,331,794	1,193,185
Noninterest expenses		
Salaries and benefits	2,944,751	2,595,775
Occupancy expense	339,703	337,396
Furniture and equipment expense	212,959	190,661
Other operating expenses	1,236,983	1,381,410
Total	4,734,396	4,505,242
Income before taxes	1,063,779	941,390

Income tax provision		237,656		234,183
Net income	\$	826,123	\$	707,207
Basic earnings per share	\$	0.24	\$	0.21
Diluted earnings per share	\$	0.23	\$	0.20

See notes to condensed consolidated financial statements.

-4-

FIRST RELIANCE BANCSHARES, INC.

Condensed Consolidated Statements of Shareholders' Equity and Comprehensive Income
For the Three Months Ended March 31, 2008 and 2007
(Unaudited)

	Common Stock		Capital	Non-vested	Treasury	Retained	Accumulated	Comprehensive	Total
	Shares	Amount	surplus	restricted stock	stock	earnings	other income		
Balance, December 31, 2006	3,424,878	\$ 34,249	\$ 25,257,814	\$ (66,131)	\$ -	\$ 8,857,755	\$ 9,576		\$ 34,093,263
Net income						707,208			707,208
Other comprehensive gain, net of tax expense of \$18,200							35,330		35,330
Comprehensive income									742,538
Issuance of shares to 404c plan	9,750	97	143,715						143,812
Non-vested restricted stock	4,002	40	59,996	(46,815)					13,220
Exercise of stock options	21,000	210	106,375						106,585
Balance, March 31, 2007	3,459,630	\$ 34,596	\$ 25,567,900	\$ (112,946)	\$ -	\$ 9,564,963	\$ 44,906		\$ 35,099,419
Balance, December 31, 2007	3,494,646	\$ 34,946	\$ 25,875,012	\$ (152,762)	\$ (145,198)	\$ 11,417,275	\$ (1,369)		\$ 37,027,904
Adjustment to reflect the cumulative-effect of change accounting for Life insurance arrangements					(203,902)				(203,902)
Balance, December 31,	3,494,646	34,946	25,875,012	(152,762)	(145,198)	11,213,373	(1,369)		36,824,002

2007

Net income	826,123	826,123
Other comprehensive gain, net of tax expense of 49,275	95,651	95,651
Comprehensive income		