

FIRST RELIANCE BANCSHARES INC  
Form 10-K  
March 31, 2010

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

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FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-49757

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FIRST RELIANCE BANCSHARES, INC.  
(Exact Name of Registrant as Specified in its Charter)

South Carolina  
(State of Incorporation)

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

2170 W. Palmetto Street, Florence, South Carolina  
(Address of Principal Executive Offices)

29501  
(Zip Code)

(843) 656-5000

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:  
None

Securities Registered Pursuant to Section 12(g) of the Act:  
Common Stock, \$0.01 Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

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Yes  No

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 and 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 "accelerated filer," "large 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

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

The aggregate market value of the registrant's outstanding common stock held by nonaffiliates of the registrant as of June 30, 2009 was approximately \$11.0 million, based on the registrant's closing sales price of \$3.50 as reported on the Over-the Counter Bulletin Board on June 30, 2009. There were 3,582,691 shares of the registrant's common stock outstanding as of March 24, 2010.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Annual Report to Shareholders for the Year Ended December 31, 2009	Part II
Proxy Statement for the Annual Meeting of Shareholders to be held June 17, 2010	Part III

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PART I

ITEM 1. BUSINESS

Special Cautionary Notice Regarding Forward-Looking Statements

This Report contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Various matters discussed in this document and in documents incorporated by reference herein, including matters discussed under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” may constitute forward-looking statements for purposes of the Securities Act and the Exchange Act. These forward-looking statements are based on many assumptions and estimates and are not guarantees of future performance, and may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of First Reliance Bancshares, Inc. (the “Company”) or its wholly owned subsidiary, First Reliance Bank (the “Bank”), to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. The words “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” and similar expressions are intended to identify such forward-looking statements. The Company’s and the Bank’s actual results may differ materially from the results anticipated in these forward-looking statements due to a variety of factors, including, without limitation:

- significant increases in competitive pressure in the banking and financial services industries;
- changes in the interest rate environment that could reduce anticipated or actual margins;
- changes in political conditions or the legislative or regulatory environment;
- general economic conditions, either nationally or regionally and especially in our primary service area, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality;
  - changes occurring in business conditions and inflation;
    - changes in technology;
    - changes in monetary and tax policies;
    - the level of allowance for loan loss;
    - the rate of delinquencies and amounts of charge-offs;
      - the rates of loan growth;
  - adverse changes in asset quality and resulting credit risk-related losses and expenses;
    - changes in the securities markets; and
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission (the “SEC”).

All written or oral forward-looking statements attributable to the Company are expressly qualified in their entirety by these cautionary statements.

#### General

The Company was incorporated under the laws of the State of South Carolina on April 12, 2001 to be the holding company for the Bank, and the Company acquired all of the shares of the Bank on April 1, 2002 in a statutory share exchange. The Bank, a South Carolina banking corporation, is the Company's only subsidiary, and the Company conducts no business other than through its ownership of the Bank. The Company has no indirect subsidiaries or special purpose entities. The Bank commenced operations in August 1999 and currently operates out of its main office and five branch offices. The Bank serves the Florence, Lexington, Charleston, and West Columbia areas in South Carolina as an independent, community-oriented commercial bank emphasizing high-quality, responsive and personalized service. The Bank provides a broad range of consumer and business banking services, concentrating on individuals and small and medium-sized businesses desiring a high level of personalized services.

The Company's stock is traded on the OTC Bulletin Board under the symbol "FSRL." Information about the Company is available on our website at [www.firstreliance.com](http://www.firstreliance.com). Information on the Company's website is not incorporated by reference and is not a part of this Report.

#### Location and Service Area

The executive or main office facilities of the Company and the Bank are located at 2170 W. Palmetto Street, Florence, South Carolina 29501. The Bank also has branches located at 411 Second Loop Road, Florence, South Carolina; 801 North Lake Drive, Lexington, South Carolina; 800 South Shelmore Boulevard, Mount Pleasant, South Carolina; 25 Cumberland Street, Suite 101, Charleston, South Carolina; and 2805A Sunset Boulevard, West Columbia, South Carolina. The Bank's primary market areas are the cities of Florence, Lexington, West Columbia, and Charleston, and the surrounding areas.

According to United States Census Bureau estimates, in 2008, Florence County had an estimated population of 132,800. Florence County, which covers approximately 805 square miles, is located in the eastern portion of South Carolina and is bordered by Darlington, Marlboro, Dillon, Williamsburg, Marion, Clarendon, Sumter, and Lee Counties. Florence County has a number of large employers, including, Wellman, Inc., Honda, Nan Ya Plastics, ESAB, McLeod Regional Medical Center, and Carolinas Medical Center. The principal components of the economy of Florence County are the wholesale and retail trade sector, the manufacturing sector, the services sector and the financial, insurance and real estate sector.

According to the United States Census Bureau, Lexington County had an estimated population in 2008 of 248,518. The primary market area is the City of Lexington and the surrounding areas of Lexington County, South Carolina. Lexington County is centrally located in the Midlands of South Carolina just outside the capital city in Columbia and is bordered by Richland, Newberry, Saluda, Aiken, Orangeburg, and Calhoun Counties. Lexington County has a number of large employers, including, Westinghouse Electric Corporation, Michelin North America, Winnsboro Assembly Opera, Amick Farms, Inc., and Bose Corporation. Lexington County is a major transportation crossroads for the Midlands with I-26, I-77, and I-20 bordering or running through the county. The Columbia Metropolitan Airport is located in Lexington County, just 10 miles from the town of Lexington, and is the Southeastern hub for the United Parcel Service. The principal components of the economy of Lexington County are the wholesale and retail trade sector, the manufacturing sector, the government sector, the services sector and the financial, insurance and real estate sector.

The United States Census Bureau estimates that in 2008, Charleston County had a population of 348,046 and the Metro Area had a population of 644,506. Charleston is located on the central and southern east coast surrounded by Berkeley and Dorchester counties. Major employers in the area include the United States Navy, the Medical University of South Carolina, and the Charleston Air Force Base.

#### Our Business Strategy

The Bank's goal is to be the largest, most profitable bank in South Carolina. First Reliance is committed to earning customer loyalty by providing customers with products and services that fit their individual needs through differentiated banking services, convenience, and programs in the market place. The customer experience in all these areas is delivered through our marketing tag line "Easy to Do Business With." The Bank also focuses on three primary customers segments, Middle America, Gen "Y," and small business. As customer loyalty grows, customer actions drive growth and profitability. Customers who do more business with the Bank provide a cost effective source of new business as customers refer family and friends.

Our business strategy also involves the following:

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Focus on our communities:

- o Founded in 1999, First Reliance is one of the only locally owned and operated banks in Florence, South Carolina;

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- o We are one of the fastest-growing banks in South Carolina, with assets of nearly \$700 million, and over 145 highly talented employees;
- o We are headquartered in Florence, and span the Columbia, Lexington and Charleston regions of South Carolina; and
- o Our hallmarks are exceptional customer service, convenience, and custom-designed programs that fit the needs of the communities we serve.

- Strong leadership:

- o First Reliance has a well-seasoned, veteran leadership team, with an average of 30 years of banking experience;
- o Our board of directors is composed of successful professionals, businesspeople, and entrepreneurs – all of whom live in markets served and have a vital interest in the Bank’s long-term success; and
- o The Bank has a board of advisors comprised of well-known professionals and community leaders who contribute to our growth through referrals and networking.

- A belief that “There’s More to Banking than Money,”™ meaning:

- o Banking is not just about dollars and cents, it is about customer service;
- o We serve hard-working Americans who prefer to bank with people who understand their needs, and who are committed to helping them achieve their financial goals; and
- o We are deeply committed to this brand promise and, as a result, we have earned a consistent customer satisfaction rating of 98%.

- An intent to capitalize on opportunities arising from adversity:

- o We recognized the economic downturn early in 2008 and developed a strategic plan to ensure that First Reliance would remain a safe and sound institution;
- o During six months of 2009, First Reliance had achieved a 17% growth in total customer households compared to 2.8% customer household growth for the overall banking industry; and
- o Our growth has been the result of referrals from our customers to friends or family, our strong brand, and our unique programs.

- Building and maintaining a strong capital base:

- o First Reliance is capitalized above minimum regulatory requirements;
- o During the later part of 2008 and early 2009, when the economy was in turmoil and there was limited access to the capital markets, we applied for and received \$15.3 million in Troubled Assets Relief Program (“TARP”) funding; and
- o Now, as capital markets have started to free up, we believe we have an opportunity to raise capital on terms attractive to us and to new investors.

- Increasing deposit market share through local core funding:

- o Strong levels of liquidity allow us to meet our customer loan demands;
- o Keeping our deposit gathering local is important to reduce the risk exposure associated with wholesale funding sources; and
- o Our strategic initiatives to attract local deposits and decrease dependence on non-local funding sources have resulted in our attaining the No. 1 deposit market share in the City of Florence and increasing market share in our Lexington and Charleston markets.



- Consider opportunistic acquisition opportunities in markets with favorable growth characteristics where we have identified experienced bankers to help execute our growth strategy, including:

- o Healthy whole bank and branch acquisitions; and
- o Subject to regulatory approval, FDIC-assisted purchases of failed bank assets and liabilities.

- Focus on profitability:

- o We implemented several process redesign initiatives in 2008 and 2009 to streamline work flow, ensure higher service quality and provide better risk controls, scale processes and lower operating costs;
- o Our management team is focused on measuring the return on every dollar spent; and
- o As we manage expenses, we expect our profitability to improve.

### Lending Activities

General. The Bank offers a full range of commercial and consumer loans, as well as real estate, construction, and acquisition loans. Commercial loans are extended primarily to small and middle market customers. Such loans include both secured and unsecured loans for working capital needs (including loans secured by inventory and accounts receivable), business expansion (including acquisition of real estate and improvements), asset acquisition and agricultural purposes. Commercial term loans generally will not exceed a five-year maturity and may be based on a ten or fifteen-year amortization. The extensions of term loans are based upon (1) the ability and stability of current management; (2) earnings and trends in cash flow; (3) earnings projections based on reasonable assumptions; (4) the financial strength of the industry and the business itself; and (5) the value and marketability of the collateral. In considering loans for accounts receivable and inventory, the Bank generally uses a declining scale for advances based on an aging of the accounts receivable or the quality and utility of the inventory. With respect to loans for the acquisition of equipment and other assets, the terms depend on the economic life of the respective assets.

Loan Limits and Approval. The Bank's lending activities are subject to a variety of lending limits imposed by federal law. Under South Carolina law, loans by the Bank to a single customer may not exceed 7.5% of the Bank's unimpaired capital, except that by two-thirds vote of the directors of the Bank such limit may be increased to 15% of the Bank's unimpaired capital. The Bank's Board of Directors has approved that increase in its lending limit. Based on the Bank's unimpaired capital as of December 31, 2009, the Bank's lending limit to a single customer is approximately \$8.7 million. Even with the increase, the size of the loans that the Bank is able to offer to potential customers is less than the size of the loans that the Bank's competitors with larger lending limits are ab