

FIRST RELIANCE BANCSHARES INC  
Form DEF 14A  
May 11, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934**

Filed by the Registrant  x

Filed by a Party other than the Registrant  "

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

FIRST RELIANCE BANCSHARES, INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

FIRST RELIANCE BANCSHARES, INC.

2170 W. Palmetto Street

Florence, South Carolina 29501

(843) 656-5000

April 30, 2012

To the Shareholders of First Reliance Bancshares, Inc.:

You are cordially invited to attend the annual meeting of shareholders of First Reliance Bancshares, Inc. (the “Company”) to be held at the First Reliance Bank – Learning Center, 2148 West Palmetto Street in Florence, South Carolina, on Thursday, June 21, 2012 at 4:00 p.m.

The attached notice of the annual meeting and proxy statement describes the formal business to be transacted at the meeting. We will also report on our operations during the past year and during the first quarter of fiscal year 2012, as well as our plans for the future.

A copy of our annual report, which contains information on our operations and financial performance as well as our audited financial statements, is also included with this proxy statement.

We cannot take any action at the meeting unless the holders of a majority of the outstanding shares of common stock of the Company are represented, either in person or by proxy. **Therefore, whether or not you plan to attend the meeting, please mark, date, and sign the enclosed proxy card, and return it to the Company in the envelope provided as soon as possible.**

Returning the proxy card will not deprive you of your right to attend the meeting and vote your shares in person. You may revoke your proxy at any time before the proxy is exercised.

I sincerely hope that you will be able to attend the meeting, and I look forward to seeing you.

Sincerely,

/s/ F.R. Saunders, Jr.

F.R. Saunders, Jr.

President and Chief Executive Officer

FIRST RELIANCE BANCSHARES, INC.

2170 W. Palmetto Street

Florence, South Carolina 29501

(843) 656-5000

## **NOTICE OF THE ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD JUNE 21, 2012**

To the Shareholders of First Reliance Bancshares, Inc.:

The Annual Meeting of Shareholders of First Reliance Bancshares, Inc. will be held on Thursday, June 21, 2012 at 4:00 p.m. at the First Reliance Bank – Learning Center, 2148 West Palmetto Street in Florence, South Carolina, for the following purposes:

- (1) **Elect Directors.** To elect four (4) persons to serve as Class B Directors until the 2015 Annual Meeting of Shareholders and until their successors have been elected and qualified.
- (2) **Nonbinding Proposal on Executive Compensation.** To consider and vote upon a non-binding resolution approving the compensation of First Reliance's executives as disclosed under the federal securities laws.
- (3) **Other Business.** To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

The enclosed Proxy Statement explains these proposals in greater detail. We urge you to review these materials carefully.

The Board of Directors has fixed the close of business on May 4, 2012 as the record date for determining the shareholders who are entitled to notice of and to vote at the meeting.

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We hope that you will be able to attend the meeting. We ask, however, whether or not you plan to attend the meeting, that you mark, date, sign, and return the enclosed proxy card as soon as possible. Promptly returning your proxy card will help ensure the greatest number of shareholders are present whether in person or by proxy.

If you attend the meeting in person, you may revoke your proxy at the meeting and vote your shares in person. You may revoke your proxy at any time before the proxy is exercised.

By Order of the Board of Directors,

/s/ F.R. Saunders, Jr.

F.R. Saunders, Jr.

President and Chief Executive Officer

April 30, 2012

**FIRST RELIANCE BANCSHARES, INC.**

2170 W. Palmetto Street

**Florence, South Carolina 29501**

**(843) 656-5000**

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**PROXY STATEMENT FOR 2012 ANNUAL MEETING**

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**INTRODUCTION**

**Time and Place of the Meeting**

The Board of Directors of First Reliance Bancshares, Inc. (the “Company”) is furnishing this proxy statement in connection with its solicitation of proxies for use at the annual meeting of shareholders to be held on Thursday, June 21, 2012 at 4:00 p.m. at the First Reliance Bank – Learning Center, 2148 West Palmetto Street in Florence, South Carolina and at any adjournments of the meeting.

**Record Date and Mail Date**

The close of business on May 4, 2012 is the record date for the determination of shareholders entitled to notice of and to vote at the meeting. We first mailed this proxy statement and the accompanying proxy card to shareholders on or about May 11, 2012.

**Number of Common Shares Outstanding**

As of the close of business on the record date, the Company had 20,000,000 shares of common stock, \$0.01 par value, authorized, of which 4,096,774 shares were issued and outstanding. Each issued and outstanding share of common stock is entitled to one vote on all matters presented at the meeting.

The Company also has 10,000,000 shares of preferred stock, no par value, authorized, of which 15,349 shares of Series A Cumulative Perpetual Preferred Stock (the "Series A Preferred Stock"), 767 shares of our Series B Cumulative Perpetual Preferred Stock (the "Series B Preferred Stock"), and 2,293 shares of our Series C Fixed Rate Cumulative Mandatorily Convertible Preferred Stock (the "Series C Preferred Stock") are authorized, issued and outstanding. The Series A Preferred Stock, the Series B Preferred Stock, and the Series C Preferred Stock are not entitled to vote on the matters presented at this meeting.

## VOTING AT THE ANNUAL MEETING

### Proposals to Be Considered

Shareholders will be asked to elect four (4) persons to serve as Class B Directors until the 2015 Annual Meeting of Shareholders and until their successors have been elected and qualified. This proposal is further described in this proxy statement. **The Board of Directors recommends that you vote for approval of this proposal.**

Shareholders will also be asked to consider and vote upon a non-binding resolution approving the compensation of First Reliance's executive officers as described in this Proxy Statement and in compliance with the federal securities laws. This proposal is further described in this proxy statement. **The Board of Directors recommends that you vote for approval of this proposal.**



Shareholders may also be asked to vote on other matters, if any, properly brought before the shareholders at the annual meeting.

### **Procedures for Voting by Proxy**

If you properly sign, return and do not revoke your proxy, the persons appointed as proxies, who are Leonard A. Hoogenboom and F.R. Saunders, Jr., will vote your shares according to the instructions you have specified on the proxy card. If you sign and return your proxy card but do not specify how the persons appointed as proxies are to vote your shares, your proxy will be voted for the election of the nominated directors and in the best judgment of the persons appointed as proxies as to all other matters properly brought before the meeting. If any nominee for election to the Board of Directors named in this proxy statement becomes unavailable for election for any reason, the proxy will be voted for a substitute nominee selected by the Board of Directors.

You can revoke your proxy at any time before it is voted by delivering to Jeffrey A. Paolucci, Executive Vice President and Chief Financial Officer of the Company, at the main office of the Company, either a written revocation of the proxy or a duly executed proxy bearing a later date or by attending the meeting and voting in person.

### **Requirements for Shareholder Approval**

**Quorum.** A quorum will be present at the meeting if a majority of the outstanding shares of common stock are represented in person or by valid proxy. We will count abstentions and broker non-votes, which are described below, in determining whether a quorum exists.

**Abstentions.** A shareholder who is present in person or by proxy at the annual meeting and who abstains from voting on any or all proposals will be included in the number of shareholders present at the annual meeting for the purpose of determining the presence of a quorum. Abstentions do not count as votes in favor of or against a given proposal unless the proposal being voted upon requires the affirmative vote of at least a specific percentage of the shares outstanding and entitled to vote. In that circumstance, abstentions will count as votes against the proposal.

**Broker Non-Votes.** Brokers who hold shares for the accounts of their clients may vote these shares either as directed by their clients or in their own discretion if permitted by the exchange or other organization of which they are members. Proxies for which brokers fail to vote on one or more proposals are referred to as “broker non-votes” with respect to the proposal(s) not voted upon. Broker non-votes are included in determining the presence of a quorum. A broker non-vote, however, does not count as a vote in favor of or against a particular proposal for which the broker

has no discretionary voting authority unless the matter being voted upon requires the affirmative vote of at least a specific percentage of the shares outstanding and entitled to vote. In such a case, broker non-votes will count as votes against the proposal.

***Approval Requirements.*** To be elected or ratified as a director, a director nominee must receive a plurality of the votes for his or her election as a director. As a result, if you withhold your vote as to one or more nominees, it will have no effect on the outcome of the election of the director for which you withheld your vote, unless you cast that vote for a competing nominee, if any.

Any other matter that may properly come before the annual meeting, requires more votes for than against the proposal being voted upon. Abstentions and broker non-votes will not be counted as votes against any proposal and therefore will have no effect on the outcome of the proposal.

## **SOLICITATION OF PROXIES**

The Company will pay the cost of proxy solicitation, as applicable. Our directors, officers and employees may, without additional compensation, solicit proxies by personal interview, telephone, fax, or otherwise. We will direct brokerage firms or other custodians, nominees or fiduciaries to forward our proxy solicitation material to the beneficial owners of common stock held of record by these institutions and will reimburse them for the reasonable out-of-pocket expenses they incur in connection with this process.

## **PROPOSAL NO. 1: ELECTION OF DIRECTORS**

### **Director Nominees**

The Company's Articles of Incorporation provide that the Board of Directors of the Company will be divided into three (3) classes – Class A, Class B and Class C – each of which is as nearly equal in number as possible. The directors in each class serve for staggered terms of three years each.

Earlier this year, the Board of Directors was informed that Director Andrew G. Kampiziones intended to retire from service to the Company's Board at the completion of his current term, which concludes at the 2012 Annual Meeting, pursuant to Company policies relating to director retirement. Mr. Kampiziones will continue to serve the Company as a Director Emeritus following the Company's Annual Meeting. The Board of Directors thanked Mr. Kampiziones for his dedicated service to the Company, and elected to not nominate Mr. Kampiziones for another term.

The Board of Directors recommends that the shareholders elect the persons identified below as nominees to the Board of Directors. The following table shows for each nominee: (a) his name; (b) his age at December 31, 2011; (c) how long he has been a director of the Company; (d) his position(s) with the Company; (e) his principal occupation and business experience for the past five years; and (f) a brief discussion of the specific experience, qualifications, attributes or skills that the Board believes qualifies each director for service on First Reliance's Board. Except as otherwise indicated, each director has been engaged in his or her present principal occupation for more than five years. Each of the director nominees listed below is also a director of First Reliance Bank. The nominating committee believes that each of the director nominees and continuing directors possess the "soft skills" appropriate for service on the Board of Directors of First Reliance, including proper temperament, collegiality, good judgment, leadership and integrity, and, on the basis of the qualifications and experience listed below, that all of the director nominees and continuing directors are well qualified to serve on our Board.

**CLASS B —DIRECTOR NOMINEES**

(Nominated for a Three –Year Term Expiring 2015)

**James R. Lingle, Jr.**, age 58, has served as a director of the Company and the Bank since April 2011. Mr. Lingle currently serves as President and CEO of iFinancial Holdings Inc, a position he has held since December 2009. Prior to that date, Mr. Lingle served as the Director of Premium Funding for Interstate National Dealer Services, Inc., based in Uniondale, New York, where he formed a warranty finance company. In addition, from 1984 to 2008, Mr. Lingle served as President and CEO of Prime Rate Premium Finance Corporation, Inc., in Florence, South Carolina. Prime Rate Premium Finance Corporation, Inc., was acquired by BB&T in 1995.

**Jeffrey A. Paolucci**, age 42, has been (i) a director of the Company and the Bank since May 1, 2003; (ii) Executive Vice President and Chief Financial Officer of the Company and the Bank since January 2009; and (iii) Senior Vice President and Chief Financial Officer of the Company and the Bank since September 2002. Prior to joining the Company and the Bank, Mr. Paolucci had been a bank examiner in the Columbia, South Carolina field office of the FDIC since 1993.

**Julius G. “Cass” Parris**, age 61, has been a director of the Company and the Bank since October 2011. Mr. Parris has been engaged in the graphics and brand management industry throughout his entire career, and, in 2003, started his own graphics business, Focus Imaging, which was acquired by Southern Graphics Systems in 2009. Mr. Parris continues to manage large national clients for SGS as a Senior Account Executive and makes his home in Florence, South Carolina.

**Paul C. Saunders**, age 50, has been (i) Senior Vice President and a director of the Bank since August 1999; (ii) Senior Vice President and Assistant Secretary of the Company since April 2001; and (iii) a director of the Company since April 2001. Mr. Saunders was Financial Sales Officer of the branch of Centura Bank in Florence, South Carolina from the time Centura Bank acquired Pee Dee State Bank by merger in March 1998 until November 1998, when he resigned to organize the Bank. Mr. Saunders was a Vice President of Pee Dee State Bank from October 1987 until March 1998. Mr. Saunders is the brother of F.R. Saunders, Jr., a director and the President and Chief Executive Officer of the Company.

## **CLASS B —RETIRING DIRECTOR**

(Will Retire from Board Service at the Annual Meeting)

**Andrew G. Kampiziones**, age 80, has been a director of the Bank since August 1999 and a director of the Company since April 2001. Mr. Kampiziones has been the sole owner and President and Treasurer of Fairfax Development Corporation, a family-owned real estate development corporation, since December 1991. Mr. Kampiziones has also been a part-time professor at Francis Marion University since 1991 and a full-time teacher at Florence/Darlington Technical College since 1992. Mr. Kampiziones has been granted Director Emeritus status by the Board of Directors, effective upon his retirement. Mr. Kampiziones will be the first person associated with the Company to serve in that honorary position.

## **Continuing Directors**

The following two tables set forth, for each remaining director of the Company whose term has not yet expired, the following: (a) his name; (b) his age at December 31, 2011; (c) how long he has been a director of the Company; (d) his position(s) with the Company; and (e) his principal occupation and business experience for the past five years. Except as otherwise indicated, each director has been engaged in his present principal occupation for more than five

years.

**CLASS C — CONTINUING DIRECTORS**

(Term Expiring 2013)

**John M. Jebaily**, age 60, has been a director of the Bank since August 1999 and a director of the Company since April 2001. Mr. Jebaily has been self-employed as a real estate agent in Florence since 1977. Mr. Jebaily also serves as the Chairman of the City of Florence Parks and Beautification Commission.

**C. Dale Lusk, MD**, age 53, has been a director of the Bank since August 1999 and a director of the Company since April 2001. Dr. Lusk has been in the private practice of OB/GYN since 1993. He is currently a partner/owner in Advance Women's Care, a local OB/GYN practice.

**A. Dale Porter**, age 61, has been (i) VP & Senior Loan Administrator since December 2007; (ii) a director of the Bank since August 1999; and (iii) a director of the Company since April 2001. From June 2005 to December 2007, Mr. Porter served as Senior Branch Administrator for the Bank; from April 2004 to June 2005, Mr. Porter served as the Senior Deposit Operations Manager for the Bank; from September 2002 to April 2004, Mr. Porter served as Controller for the Bank; and from August 1999 to September 2002, Mr. Porter served as Executive Vice President, Chief Financial Officer and Secretary of the Bank. Prior to joining the Company and the Bank, Mr. Porter was Regional Support Specialist-Operational of the region of Centura Bank in South Carolina from the time Centura Bank acquired Pee Dee State Bank by merger in March 1998 until October 1998, when he resigned to organize the Bank. Mr. Porter was Cashier and a director of Pee Dee State Bank from January 1978 until March 1998 and was manager of data processing from February 1972 until January 1978.

#### **CLASS A — CONTINUING DIRECTORS**

(Term Expiring 2014)

**Leonard A. Hoogenboom**, age 68, has been (i) Chairman of the Board and a director of the Bank since August 1999 and (ii) Chairman of the Board and a director of the Company since April 2001. Mr. Hoogenboom has been the owner and Chief Executive Officer of L. Hoogenboom CPA, a local CPA firm, since 1984. Mr. Hoogenboom has extensive local contacts and a wide variety of business experiences and community involvement.

**F.R. Saunders, Jr.**, age 51, has been (i) President, Chief Executive Officer and a director of the Bank since August 1999; (ii) a director of the Company since April 2001; and (iii) President and Chief Executive Officer of the Company since April 2001. Mr. Saunders was Senior Market Manager of the branch of Centura Bank in Florence, South Carolina from the time Centura Bank acquired Pee Dee State Bank by merger in March 1998 until November 1998, when he resigned to organize the Bank. Mr. Saunders was a Vice President and a director of Pee Dee State Bank from January 1990 until March 1998. Mr. Saunders is the brother of Paul C. Saunders, a director and Senior Vice President of the Company.

**J. Munford Scott, Jr.**, age 66, has been a director of the Company and the Bank since January 2007. Mr. Scott serves as special counsel for the law firm Turner Padgett Graham & Laney, P.A., a position he has held since December 2006. Prior to that date, he was the senior attorney and owner of Scott & Associates P.C. Attorneys at Law for over twenty years.

#### **Director Independence**

The Board of Directors has determined that the following directors are independent pursuant to the independence standards of the Nasdaq Stock Market:

- Leonard A. Hoogenboom · John M. Jebaily
- James R. Lingle, Jr. · C. Dale Lusk, MD
- Julius G. Parris · J. Munford Scott, Jr.

In determining that each director could exercise independent judgment in carrying out his or her responsibilities, the Board of Directors considered any transactions, relationships and arrangements between the Company or the Bank and the director and his family.



## **Board Leadership Structure and Role in Risk Oversight**

Our Board of Directors is led by a Chairman selected by the Board from time to time. Presently, Mr. Hoogenboom, an independent director, is Chairman of the Board. Mr. F.R. Saunders, Jr. currently serves as a director and as the Company's President and Chief Executive Officer. The foregoing structure is not mandated by any provision of law, but the Board of Directors believes this structure provides for an appropriate balance of authority between management and the Board and provides an efficient decision-making process with proper independent oversight. The Board of Directors, however, reserves the right to establish a different structure in the future.

The Board of Directors oversees and monitors First Reliance's risk management processes. The Board outlines our risk principles and management framework and it sets high level strategy and risk tolerances, including the creation of internal controls and safeguards relating to interest rate risk, loan concentrations, loans to one borrower and customer security. The Audit Committee is primarily responsible for overseeing the risk management function of the Company on behalf of the Board. In carrying out its responsibilities, the Audit Committee works closely with senior risk officers as well as the Board's Corporate Governance and Nominating Committee and meets regularly to review management's assessment of risk exposure and the process in place to monitor and control such exposure. Additionally, the Audit Committee meets at least four times annually to review the Company's annual financial statements, the Company's annual report on Form 10-K, internal audit reports and meets in executive session with internal auditors, the Company's principal accountants, the Chief Financial Officer and the Controller, among others, to assess risk that may affect the entire Company.

## **Board Meetings and Committees**

In 2011, the Boards of Directors of the Company and the Bank held 12 joint meetings. During 2011, all incumbent directors attended at least 75% of the total number of meetings of the Board of Directors and the total number of meetings held by all committees of the board on which the director served.

The Company does not have a formal policy regarding board member attendance at the annual meeting of shareholders; however, board members are encouraged to attend any and all shareholder meetings of the Company. Last year nine of our ten directors then serving attended our annual meeting of shareholders.

***Corporate Governance and Nominating Committee.*** The Company's Corporate Governance and Nominating Committee consists of Leonard A. Hoogenboom, F.R. Saunders, Jr., J. Munford Scott, Jr., and C. Dale Lusk. The committee met three times during 2011. The Corporate Governance and Nominating Committee has been formed by the Board of Directors to consider, among other items, shareholders' nominations of individuals to serve as directors of the Company in accordance with the Company's Bylaws and the committee's charter. As part of its responsibilities, the

committee makes a recommendation regarding any suggested nominee to the entire Board of Directors for final determination and consideration. The Company's and the Bank's Board of Directors has adopted a written charter for the Corporate Governance and Nominating Committee, which is available on our website, [www.firstreliance.com](http://www.firstreliance.com).

The Corporate Governance and Nominating Committee has adopted a formal process for identifying or evaluating nominees; as part of this process, it informally solicits and considers recommendations from a variety of sources, including other directors, members of the community, customers of the Bank and shareholders of the Company, and professionals in the financial services and other industries. Similarly, the committee prescribes specific qualifications or skills that a nominee must possess, including the potential nominee's business experience; knowledge of the Company and the financial services industry; experience in serving as a director of the Company or another financial institution or public company generally; wisdom, integrity and analytical ability; familiarity with and participation in the communities served by the Company; commitment to and availability for service as a director; and any other factors the committee deems relevant.

The Corporate Governance and Nominating Committee's policy with regard to the consideration of diversity in identifying director nominees considers all aspects of diversity in identifying well-qualified director nominees. In particular, the Corporate Governance and Nominating Committee attempts to identify well-qualified directors who are representative of First Reliance's market area and customers.

The Corporate Governance and Nominating Committee will consider shareholder nominations for directors that are made in writing and delivered to the Company in accordance with the Company's Bylaws. Generally, the Company's Bylaws require that such notice be given at least 120 days before the one-year anniversary of the mailing date for the prior year's proxy statement.

Additionally, the nomination must state, to the extent known to the nominating shareholder, the following information:

with respect to the nominee, all information regarding the nominee required to be disclosed in a solicitation of proxies for election of directors pursuant to Regulation 14A under the Securities and Exchange Act of 1934 (including the nominee's written consent to be named in a proxy statement as a nominee and to serve as a director if elected);

any agreement or relationship between the nominee and the Company, its directors, officers, employees and independent auditors, as well as the nominating shareholder; and

the nominating shareholder's name, address and number of shares owned.

Shareholder nominations not made in accordance with the Company's nominating procedures may be disregarded by the chair of the meeting at which the election is to be held. For a complete description of the required procedures for submitting a shareholder nomination, please see Article II, Section 13 of the Company's Amended Bylaws.

**Audit Committee.** The Company's Audit Committee consists of Leonard A. Hoogenboom, Andrew G. Kampiziones, James R. Lingle, Jr., J. Munford Scott, Jr., and C. Dale Lusk. The committee met five times in 2011. The Audit Committee recommends to the Bank's and the Company's Board of Directors the independent public accountants to be selected to audit the Bank's and the Company's annual financial statements and determines that all audits and exams required by law are performed fully, properly and in a timely fashion. The Audit Committee also evaluates internal accounting controls, reviews the adequacy of the internal audit budget, personnel and audit plan. The Board has determined that Mr. Hoogenboom is an "audit committee financial expert" as that term is defined in SEC regulations. The Company's and the Bank's Board of Directors has adopted a written charter for the Audit Committee, which is available on our website, [www.firstreliance.com](http://www.firstreliance.com). The Audit Committee Report is found in the "Audit Committee Matters" section of this Proxy Statement.

**Compensation Committee.** The Company's Compensation Committee consists of Andrew G. Kampiziones, Leonard A. Hoogenboom, John M. Jebaily and J. Munford Scott, Jr. The committee met five times in 2011. The primary purpose of the Compensation Committee is to aid the Board of Directors in discharging its responsibilities relating to the compensation of the Company's executive officers, including the Chief Executive Officer. The committee has overall responsibility for evaluating and approving the Company's compensation plans, policies and programs. The committee (i) reviews and determines the annual compensation, including salary, bonus, incentive and other compensation of the Chief Executive Officer; (ii) approves corporate goals and objectives relevant to compensation of the Chief Executive Officer; (iii) evaluates performance in light of these goals and objectives, approves compensation in accordance therewith and provides a report thereon to the Board; (iv) reviews and makes recommendations to the Board with respect to incentive based compensation plans and equity based plans; (v) establishes criteria for the terms of awards granted to participants under such plans; (vi) recommends to the Board the compensation for directors (including retainer, committee and committee chair fees, stock options and other similar items, as appropriate); (vii) establishes and approves policies on employment agreements, severance arrangements and change in control agreements and provisions, as well as any special supplemental benefits; and (viii) retains outside counsel and other advisors as the committee may deem appropriate in its sole discretion. The committee has the sole authority to approve related fees and retention terms. Although the Compensation Committee did consult with legal counsel during 2011 regarding its compensation plans, it did not utilize the services of dedicated compensation consultant in 2011.

Pursuant to First Reliance's participation in the United States Department of the Treasury's ("Treasury") Troubled Asset Relief Program ("TARP"), Capital Purchase Program ("CPP"), the Compensation Committee must be comprised entirely of independent directors and is required to perform, at least every six months, a review of our incentive compensation programs with senior risk officers to (i) ensure that the programs do not encourage Senior Executive Officers (as defined in the CPP) to take unnecessary and excessive risks that threaten the value of the Company and (ii) identify and implement means of limiting such risks. The Compensation Committee is also required to discuss, evaluate and review, at least every six months, employee compensation plans to ensure that such plans do not encourage the manipulation of First Reliance's reported earnings. Finally, the Compensation Committee is required to submit to Treasury and our primary federal regulator a narrative description of how such compensation plans do not encourage, among other items, behavior focused on short-term results rather than long-term value creation.

The Company's and the Bank's Board of Directors has adopted a written charter for the Compensation Committee. A copy of the Compensation Committee charter is available on our website, [www.firstreliance.com](http://www.firstreliance.com).

## Director Compensation

### 2011 Director Compensation Table

The following table shows the total fees paid to each of our directors for their service for 2011:

Name <sup>(1)</sup>	Fees earned or paid in cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Non-Qualified Deferred Comp Earnings (\$)	All Other Compensation <sup>(2)</sup> (\$)	Total (\$)
Mr. Hoogenboom	27,050	—	—	—	—	11,521	38,571
Mr. Jebaily	15,550	—	—	—	—	—	15,550
Mr. Kampiziones	9,250	—	—	—	—	—	9,250
Mr. Lingle	7,767	—	—	—	—	—	7,767
Dr. Lusk	14,050	—	—	—	—	—	14,050
Mr. Parris <sup>(3)</sup>	*	—	—	—	—	—	*
Mr. Porter <sup>(4)</sup>	14,500	—	—	—	—	—	14,500
Mr. Paul Saunders <sup>(5)</sup>	10,750	—	—	—	—	—	10,750
Mr. Scott	16,750	—	—	—	—	—	16,750

<sup>(1)</sup> Messrs. Paolucci and F.R. Saunders, Jr. are also Named Executive Officers of the Company and their compensation as directors is reported in the Summary Compensation table below.

(2) Includes the 2011 expense related to the company vehicle for Mr. Hoogenboom.

<sup>(3)</sup> Mr. Parris joined the Company's Board of Directors on October 27, 2011; as such, he received limited compensation for his service during the fiscal year ended December 31, 2011.

Mr. Porter also receives compensation for services provided as an employee (non-executive officer) of the (4) Company. The table reports only the additional compensation that Mr. Porter receives for services provided as a director.

(5) Mr. Paul Saunders also receives compensation for services provided as an executive officer of the Company. The table reports only the additional compensation that Mr. Saunders receives for services provided as a director.

**Director Fees.** In 2011, the Company paid its directors an annual retainer fee of \$3,500 (\$8,500 for the Chairman of the Board) and an annual board member fee of \$2,750. Audit and Loan Committee members were paid \$3,000 each for the year, with the respective Chairmen receiving an additional \$3,000 as retainer. Finance, Compensation, and Budget and Planning Committee members were paid \$1,500 each for the year, with the respective Chairmen receiving an additional \$1,500 as retainer. Members of other committees were paid \$300 per meeting attended. Director fees are paid to both management and non-management directors. A total of \$127,188 was paid in director fees during 2011.

**Director Retirement Agreements.** On December 19, 2006, the Bank entered into director retirement agreements with Messrs. Hoogenboom, Jebaily, Kampiziones, Lusk, Porter and Willis. Pursuant to the terms of the director retirement agreements, each director will be entitled to receive an annual benefit of \$12,000 (\$18,000 for Mr. Hoogenboom) if the director remains in active service to the Bank for seven years from the effective date of the agreements. If a director terminates service to the Bank prior to the vesting of his benefit under the director retirement agreements, the director is entitled to a lump sum cash payment equal to the accrued liability balance on the Bank's books. Pursuant to an amendment to the Director Retirement Agreement, adopted by First Reliance Bank and Messrs. Hoogenboom, Jebaily, Kampiziones, Lusk, Porter and Willis, respectively, on April 15, 2010, each of the parties agreed that as of October 1, 2009, the Bank would have no further obligation to accrue for benefits payable to the Director. As a result of this amendment, the benefits payable to the Director pursuant to the retirement agreements are fixed as of September 30, 2009; pursuant to the amendment, Messrs. Jebaily, Kampiziones, Lusk, and Porter will be entitled to receive an annual benefit of \$3,320 (\$4,980 for Mr. Hoogenboom) upon the event of their respective retirements.

On December 19, 2006, the Bank also entered into endorsement split dollar agreements with Messrs. Hoogenboom, Jebaily, Kampiziones, Lusk and Porter, in connection with bank-owned life insurance, whereby each director may name a beneficiary who will be entitled to receive the lesser of (i) \$50,000 or (ii) the total death proceeds of the insurance policy less its cash surrender value.

**Company Vehicle.** In January 2006, the Company agreed to provide the Chairman of the Board with the use of a company vehicle.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information regarding the beneficial ownership of our common stock as of March 31, 2012 by (1) each of our current directors and director nominees; (2) each of our named executive officers; (3) all of our present executive officers and directors as a group; and (4) each person or entity known to us to be the beneficial owner of more than five percent of our outstanding common stock, based on the most recent filings with the SEC and the information contained in those filings. Unless otherwise indicated, the address for each person included in the table is c/o First Reliance Bancshares, Inc., 2170 W. Palmetto Street, Florence, South Carolina 29501.

Name of Beneficial Owner	Number of Shares Beneficially Owned <sup>(1)</sup>	Percentage	Manner in which Shares are Beneficially Owned <sup>(2)</sup>
<b>Directors:</b>			
Leonard A. Hoogenboom	27,715	*	Includes 2,440 shares held by his spouse and 680 shares held as custodian for two grandchildren.
John M. Jebaily	15,480	*	
Andrew G. Kampiziones	22,700	*	
James R. Lingle, Jr.	1,700	*	Held by IRA.
C. Dale Lusk, MD	27,500	*	
Julius G. Parris	0	*	
Jeffrey A. Paolucci	48,777	1.19	% Includes 18,566 shares of unvested restricted stock and 2,734 shares held by his spouse.
A. Dale Porter	150,768	3.68	% Includes 808 shares of unvested restricted stock.
F.R. Saunders, Jr.	208,781	5.10	% Includes 60,584 shares of unvested restricted stock, 4,000 shares held by Mr. Saunders' children, and 10,442 held by his spouse.
Paul C. Saunders	106,208	2.60	% Includes 34,859 shares of unvested restricted stock.
J. Munford Scott, Jr.	1,887	*	Includes 1,000 shares held by his IRA and 437 shares held by his spouse's IRA
<b>Non-Director Named Executive Officers:</b>			
Thomas C. Ewart, Sr.	24,653	*	Includes 8,659 shares of unvested restricted stock.
Jess A. Nance	12,495	*	Includes 3,725 shares held by his IRA and 7,760 shares of unvested restricted stock.
All Current Directors and Executive Officers, as a Group (13 persons):	648,664	15.83	%
Other 5% Shareholders:	348,203	8.50	%



Service Capital Partners, LP,  
Service Capital Advisors,  
LLC, and Dory Wiley<sup>(3)</sup>

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\*

Represents less than 1%.

(1) Information relating to beneficial ownership of our common stock is based upon “beneficial ownership” concepts described in the rules issued under the Securities Exchange Act of 1934, as amended. Under these rules a person is deemed to be a “beneficial owner” of a security if that person has or shares “voting power,” which includes the power to vote or to direct the voting of the security, or “investment power,” which includes the power to dispose or to direct the disposition of the security. Under the rules, more than one person may be deemed to be a beneficial owner of the same securities. A person is also deemed to be a beneficial owner of any security as to which that person has the right to acquire beneficial ownership within sixty (60) days from March 31, 2012.