

FIRST RELIANCE BANCSHARES INC
Form 10-Q
November 08, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C.

(Mark One)

FORM 10-Q

x

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

For the Quarterly Period Ended September 30, 2013

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
(State or Other Jurisdiction of
Incorporation or Organization)

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

2170 West Palmetto Street
Florence, South Carolina 29501
(Address of Principal Executive
Offices)

(843) 656-5000
(Registrant'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:

FIRST RELIANCE BANCSHARES, INC.

4,566,650 shares of common stock, par value \$0.01 per share, as of October 31, 2013

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

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$2,910,140	\$2,893,020
Interest-bearing deposits with other banks	22,895,029	35,169,883
Total cash and cash equivalents	25,805,169	38,062,903
Time deposits in other banks	101,207	100,953
Securities available-for-sale	51,243,713	60,071,012
Nonmarketable equity securities	1,055,000	1,297,400
Total investment securities	52,298,713	61,368,412
Mortgage loans held for sale	825,704	5,621,860
Loans receivable	231,093,043	260,257,334
Less allowance for loan losses	(2,899,368)	(4,167,482)
Loans, net	228,193,675	256,089,852
Premises, furniture and equipment, net	24,466,238	24,626,975
Accrued interest receivable	1,063,083	1,276,898
Other real estate owned	13,913,979	15,289,991
Cash surrender value life insurance	12,858,461	12,599,787
Other assets	2,296,990	3,239,579
Total assets	\$361,823,219	\$418,277,210
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing transaction accounts	\$63,983,317	\$58,023,250
Interest-bearing transaction accounts	47,720,863	42,568,838
Savings	91,308,501	104,031,114
Time deposits \$100,000 and over	46,607,446	83,703,846
Other time deposits	46,578,269	60,987,086
Total deposits	296,198,396	349,314,134
Securities sold under agreement to repurchase	4,918,396	4,377,978
Advances from Federal Home Loan Bank	11,000,000	11,000,000
Junior subordinated debentures	10,310,000	10,310,000
Accrued interest payable	564,519	465,409
Other liabilities	1,551,423	1,611,762
Total liabilities	324,542,734	377,079,283
Shareholders' Equity		
Preferred stock	15,096,562	15,120,344

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Series A cumulative perpetual preferred stock - 15,349 shares issued and outstanding		
Series B cumulative perpetual preferred stock - 767 shares issued and outstanding	774,054	786,399
Series C cumulative mandatory convertible preferred stock - 2,293 shares issued and outstanding at December 31, 2012	-	2,293,000
Common stock, \$0.01 par value; 20,000,000 shares authorized, 4,566,650 and 4,094,861 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	45,667	40,949
Capital surplus	30,605,907	27,991,132
Treasury stock, at cost, 29,846 and 19,289 shares at September 30, 2013 and December 31, 2012, respectively	(201,634)	(182,234)
Nonvested restricted stock	(40,078)	(123,466)
Retained deficit	(9,318,058)	(6,207,116)
Accumulated other comprehensive income	318,065	1,478,919
Total shareholders' equity	37,280,485	41,197,927
Total liabilities and shareholders' equity	\$361,823,219	\$418,277,210

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,	
	2013	2012	2013	2012
Interest income:				
Loans, including fees	\$ 3,246,099	\$ 4,196,618	\$ 10,090,301	\$ 12,699,918
Investment securities:				
Taxable	272,918	445,994	935,158	1,373,027
Nontaxable	16,987	128,216	16,987	506,305
Other interest income	20,295	22,844	73,230	80,838
Total	3,556,299	4,793,672	11,115,676	14,660,088
Interest expense:				
Time deposits	376,271	823,399	1,502,759	2,833,290
Other deposits	49,458	87,814	173,446	346,952
Other interest expense	122,005	129,890	362,023	386,917
Total	547,734	1,041,103	2,038,228	3,567,159
Net interest income	3,008,565	3,752,569	9,077,448	11,092,929
Provision for loan losses	609,808	350,955	609,808	950,955
Net interest income after provision for loan losses	2,398,757	3,401,614	8,467,640	10,141,974
Noninterest income:				
Service charges on deposit accounts	435,616	451,027	1,252,816	1,301,545
Gain on sales of mortgage loans	303,781	303,228	877,822	855,966
Income from bank owned life insurance	86,908	91,573	258,675	281,250
Other charges, commissions and fees	271,658	250,335	739,322	719,344
Gain on sale of securities	-	1,298,627	33,917	1,806,414
Other non-interest income	82,617	57,544	252,043	493,904
Total	1,180,580	2,452,334	3,414,595	5,458,423
Noninterest expenses:				
Salaries and employee benefits	1,939,545	1,975,606	5,845,209	5,771,871
Occupancy expense	390,355	375,971	1,123,502	1,108,232
Furniture and equipment expense	435,846	330,979	908,688	1,083,915
Other operating expenses	3,283,492	2,494,982	6,656,392	6,501,651
Total	6,049,238	5,177,538	14,533,791	14,465,669
Net income (loss) before income taxes	(2,469,901)	676,410	(2,651,556)	1,134,728
Income tax expense	-	-	-	-
Net income (loss)	(2,469,901)	676,410	(2,651,556)	1,134,728

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Preferred stock dividends	254,449	249,248	752,944	747,743
Deemed dividends on preferred stock resulting from net accretion of discount and amortization of premium	44,876	44,876	133,164	133,652
Net income (loss) available to common shareholders	\$ (2,769,226)	\$ 382,286	\$ (3,537,664)	\$ 253,333
Average common shares outstanding, basic	4,413,119	4,096,774	4,202,251	4,093,148
Average common shares outstanding, diluted	4,413,119	4,281,099	4,202,251	4,290,298
Basic earnings (loss) per share	\$ (0.63)	\$ 0.09	\$ (0.84)	\$ 0.06
Diluted earnings (loss) per share	(0.63)	0.09	(0.84)	0.06

See notes to condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss) from operations	\$ (2,469,901)	\$ 676,410	\$ (2,651,556)	\$ 1,134,728
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses) on available-for-sale securities arising during the period	(593,067)	742,089	(1,735,378)	1,488,136
Income tax expense (benefit)	(201,643)	252,310	(550,709)	505,966
Net of income taxes	(391,424)	489,779	(1,184,669)	982,170
Reclassification adjustment for gains (losses) realized in net income from operations	-	1,298,627	(36,083)	1,806,414
Income tax expense (benefit)	-	441,533	(12,268)	614,181
Net of income taxes	-	857,094	(23,815)	1,192,233
Other comprehensive income (loss)	(391,424)	(367,315)	(1,160,854)	(210,063)
Comprehensive income (loss)	\$ (2,861,325)	\$ 309,095	\$ (3,812,410)	\$ 924,665

See notes to condensed consolidated financial statements

FIRST RELIANCE BANCSHARES, INC.
Condensed Consolidated Statements of Shareholders' Equity
For the Nine Months Ended September 30, 2013 and 2012
(Unaudited)

	Preferred Stock	Common Stock	Capital Surplus	Treasury Stock	Nonvested Restricted Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2011	\$ 18,021,216	\$ 40,844	\$ 27,992,485	\$(173,650)	\$(320,196)	\$(6,304,429)	\$ 1,861,720	\$ 41,117,990
Net income						1,134,728		1,134,728
Changes in unrealized gains and losses on securities							(210,064)	(210,064)
Accretion of Series A Preferred stock discount	146,041					(146,041)		-
Amortization of Series B Preferred stock premium	(12,390)					12,390		-
Issuance Common Stock		8	993					1,001
Net Change in Restricted Stock		116	7,766		144,219			152,101
Purchase of treasury stock				(8,565)				(8,565)
Balance, September	\$ 18,154,867	\$ 40,968	\$ 28,001,244	\$(182,215)	\$(175,977)	\$(5,303,352)	\$ 1,651,656	\$ 42,187,191

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30, 2012

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 Preferred stock to Common stock	(2,293,000)	4,709	2,614,513			(326,222)		-
Issuance 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)

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Balance, September 30, 2013	\$ 15,870,616	\$ 45,667	\$ 30,605,907	\$(201,634)	\$(40,078)	\$(9,318,058)	\$ 318,065	\$ 37,280,485
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See notes to condensed consolidated financial statements

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FIRST RELIANCE BANCSHARES, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended	
	September 30,	
	2013	2012
Cash flows from operating activities:		
Net Income (loss)	\$ (2,651,556)	\$ 1,134,728
Adjustments to reconcile net income (loss) to net cash		
Provided by operating activities:		
Provision for loan losses	609,808	950,955
Depreciation and amortization expense	623,828	702,635
Gain on sale of available-for-sale securities	(33,917)	(1,806,414)
Impairment loss on available-for-sale securities	70,000	-
Loss on sale of other real estate owned	331,626	109,516
Write down of other real estate owned	1,403,712	882,189
Discount accretion and premium amortization on available-for-sale securities	246,007	169,887
Disbursements for loans held-for-sale	(23,514,839)	(36,145,420)
Proceeds from loans held-for-sale	28,310,995	35,031,017
Decrease in interest receivable	213,815	561,862
Increase in cash surrender value of life insurance	(258,674)	(281,250)
Increase in interest payable	99,110	92,221
Amortization of deferred compensation on restricted stock	82,657	152,101
Increase (decrease) in other liabilities	(60,339)	1,223,126
Decrease in other assets	1,381,037	840,699
Net cash provided by operating activities	6,853,270	3,617,852
Cash flows from investing activities:		
Increase in time deposits	(254)	(580)
Net decrease in loans receivable	22,683,679	23,792,006
Purchases of securities available-for-sale	(6,954,182)	(13,220,603)
Proceeds on sales of securities available-for-sale	712,248	25,677,784
Maturities of securities available-for-sale	13,087,848	8,891,082
Net decrease of nonmarketable equity securities	242,400	1,044,400
Proceeds from sales of other real estate owned	4,243,364	5,882,445
Purchases of premises and equipment	(363,098)	(233,662)
Net cash provided by investing activities	33,652,005	51,832,872
Cash flows from financing activities:		
Net decrease in demand deposits, interest-bearing and savings accounts	(1,610,521)	(9,782,700)
Net decrease in certificates of deposit and other time deposits	(51,505,217)	(53,689,447)
Net increase in securities sold under agreements to repurchase	540,418	4,711,362
Expense of auctioning Series A and Series B Preferred stock	(169,291)	-
Issuance of common stock to employees	1,002	1,001
Purchase of treasury stock	(19,400)	(8,565)
Net cash used by financing activities	(52,763,009)	(58,768,349)

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Net decrease in cash and cash equivalents	(12,257,734)	(3,317,625)
Cash and cash equivalents, beginning of period	38,062,903	44,020,830
Cash and cash equivalents, end of period	\$ 25,805,169	\$ 40,703,205
Cash paid during the period for:		
Interest	\$ 1,939,118	\$ 3,474,938
Income taxes	-	-
Supplemental noncash investing and financing activities:		
Foreclosures on loans	\$ 4,602,690	\$ 5,317,584
Net change in valuation allowance available-for-sale	(1,160,853)	(210,064)

See notes to condensed consolidated financial statements

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FIRST RELIANCE BANCSHARES, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 - Basis of Presentation

The accompanying condensed consolidated financial statements of First Reliance Bancshares, Inc. (“the Company”), have been prepared in accordance with the requirements for interim financial statements and, accordingly, they are condensed and omit certain disclosures that would appear in audited annual consolidated financial statements. The consolidated financial statements as of September 30, 2013 and for the interim periods ended September 30, 2013 and 2012 are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. The consolidated financial information as of December 31, 2012 has been derived from the audited consolidated financial statements as of that date. For further information, refer to the consolidated financial statements and the notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

Note 2 - Recently Issued Accounting Pronouncements

The following is a summary of recent authoritative pronouncements:

The Comprehensive Income topic of the ASC was amended in June 2011. The amendment eliminated the option to present other comprehensive income as a part of the statement of changes in stockholders’ equity and required consecutive presentation of the statement of net income and other comprehensive income. The amendments were applicable to the Company January 1, 2012 and have been applied retrospectively. In December 2011, the topic was further amended to defer the effective date of presenting reclassification adjustments from other comprehensive income to net income on the face of the financial statements while the FASB redeliberated the presentation requirements for the reclassification adjustments. In February 2013, the FASB further amended the Comprehensive Income topic clarifying the conclusions from such redeliberations. Specifically, the amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments do require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, in certain circumstances an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The amendments were effective for the Company on a prospective basis for reporting periods beginning after December 15, 2012. These amendments did not have a material effect on the Company’s financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company’s financial position, results of operations or cash flows

Note 3 - Reclassifications

Certain captions and amounts in the financial statements in the Company’s Form 10-Q for the quarter ended September 30, 2012 were reclassified to conform to the September 30, 2013 presentation.

Note 4 - Investment Securities

The amortized cost and estimated fair values of securities available-for-sale were:

Amortized	Gross Unrealized	Estimated
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	Cost	Gains	Losses	Fair Value
September 30, 2013				
U.S. Government-sponsored agencies	\$7,213,758	\$ 100,023	\$ 169,049	\$7,144,732
Municipals	3,166,424	20,625	27,084	3,159,965
Cooperate bonds	2,760,261	42,519	-	2,802,780
Mortgage-backed securities	37,591,353	693,831	178,948	38,106,236
Equity security	30,000	-	-	30,000
Total	\$50,761,796	\$ 856,998	\$ 375,081	\$51,243,713
December 31, 2012				
U.S. Government-sponsored agencies	\$7,591,892	\$517,136	\$-	\$8,109,028
Mortgage-backed securities	50,197,908	1,758,576	-	51,956,484
Equity security	100,000	-	94,500	5,500
Total	\$57,889,800	\$2,275,712	\$94,500	\$60,071,012

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The following is a summary of maturities of securities available-for-sale as of September 30, 2013. The amortized cost and estimated fair values are based on the contractual maturity dates. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty. Mortgage-backed securities are presented as a separate line, the maturities of which are based on expected maturities, as paydowns are expected to occur before the securities' contractual maturity dates.

	Securities Available-For-Sale	
	Amortized Cost	Estimated Fair Value
U.S. Government-sponsored agencies, municipals and corporate bonds		
Due after ten years	\$ 13,140,443	\$ 13,107,477
Mortgage-backed securities	37,591,353	38,106,236
Equity security	30,000	30,000
Total	\$ 50,761,796	\$ 51,243,713

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2013 and December 31, 2012.

	September 30, 2013		December 31, 2012	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Less Than 12 Months				
U.S. Government-sponsored agencies	\$ 4,537,489	\$ 169,049	\$ -	\$ -
Municipals	2,043,109	27,084	-	-
Mortgage-backed securities	7,371,927	178,948	-	-
	13,952,525	375,081	-	-
12 Months or More				
Equity security	-	-	5,500	94,500
Total securities available-for-sale	\$ 13,952,525	\$ 375,081	\$ 5,500	\$ 94,500

At September 30, 2013, there were no securities that had been in a loss position for twelve months or more. However, during the first quarter of 2013 management determined that the Company's equity investment of \$100,000 in a local community bank was other-than-temporarily impaired. Based on industry analyst reports and market trading prices, it was determined that the estimated fair market value of this investment was \$30,000. Consequently, an impairment loss of \$70,000 was recognized. While the Company does not intend to sell this security in the near future, and it is more likely than not that the Company will not be required to sell it, there is no assurance that the carrying value of this security will be realized in the future.

During the first nine months of 2013 and 2012, proceeds from the sale of available-for-sale securities were \$712,248 and \$25,677,784, respectively. Net gains on available-for-sale securities totaled \$33,917 and \$1,806,414 for the first nine months of 2013 and 2012, respectively.

Note 5 Loans Receivable and Allowance for Loan Losses

Major classifications of loans receivable are summarized as follows:

	September 30, 2013	December 31, 2012
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Real estate loans:		
Construction	\$ 25,983,333	\$ 31,985,532
Residential:		
Residential 1-4 family	34,619,592	35,091,846
Multifamily	4,460,305	5,563,043
Second mortgages	4,361,528	4,077,692
Equity lines of credit	21,042,326	22,502,339
Total residential	64,483,751	67,234,920
Nonresidential	103,285,343	122,309,917
Total real estate loans	193,752,427	221,530,369
Commercial and industrial	26,747,037	29,255,564
Consumer	10,521,865	9,304,913
Other	71,714	166,488
Total loans	\$ 231,093,043	\$ 260,257,334

The Company has pledged certain loans as collateral to secure its borrowings from the Federal Home Loan Bank. The total of loans pledged was \$75,250,210 and \$84,692,901 at September 30, 2013 and December 31, 2012, respectively.

The following is an analysis of the allowance for loan losses by class of loans for the nine months ended September 30, 2013 and the year ended December 31, 2012.

September 30,
2013

(Dollars in Thousands)	Real Estate Loans				Total Real Estate Loans	Consumer Commercial and Other	
	Total	Construction	Residential	Non- Residential			
Beginning balance	\$ 4,167	\$ 1,441	\$ 951	\$ 1,129	\$ 3,521	\$ 616	\$ 30
Provisions	610	(1,150)	1,071	1,001	922	(348)	36
Recoveries	396	123	174	18	315	69	12
Charge-offs	(2,274)	(249)	(981)	(914)	(2,144)	(92)	(38)
Ending balance	\$ 2,899	\$ 165	\$ 1,215	\$ 1,234	\$ 2,614	\$	