

FIRST RELIANCE BANCSHARES INC  
Form PRER14A  
December 16, 2008

SCHEDULE 14A  
(Rule 14a-101)  
INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION  
Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. N/A)

Filed by the Registrant

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 Rule 14a-11(c) or Rule 14a-12

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

(Name of Person(s) Filing Proxy Statement, if Other Than Registrant)

Payment of filing fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
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  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0\_11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
  - (4) Proposed maximum aggregate value of transaction:
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  - (1) Amount previously paid:
  - (2) Form, Schedule or Registration Statement no.:

(3) Filing Party:

(4) Date Filed:

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First Reliance Bancshares, Inc.

2170 W. Palmetto Street  
Florence, South Carolina 29501  
(843) 656-5000

December \_\_, 2008

Dear Fellow Shareholders:

We cordially invite you to attend a special meeting of the shareholders of First Reliance Bancshares, Inc. called by the Board of Directors. The special meeting will be held at \_\_\_\_\_ - \_\_.m., local time, on [\_\_\_\_\_], 2009 at our Learning Center, 2148 West Palmetto Street in Florence. The formal notice of the special meeting and the proxy statement and proxy card follow this letter.

At the special meeting, we are asking you to approve an amendment to our Articles of Incorporation to authorize the issuance of preferred stock. We, like other financial institutions, continue to experience extremely challenging economic and financial market conditions. While our capital ratios remain strong, the outlook for continuing weak economic conditions requires us take all necessary steps to achieve even higher capital levels that will position First Reliance Bank to remain strong throughout the remainder of this crisis and poised to resume growth when the economy regains its footing. If this amendment is approved, we will have broader options to seek additional capital, including a possible investment by the U.S. Treasury under the Emergency Economic Stabilization Act. On October 14, 2008, the Treasury announced it was prepared to invest \$125 billion dollars in preferred stock of certain financial institutions. This capital purchase program is designed to provide banks with a source of new capital on favorable terms and without being overly dilutive to shareholders. It is being widely used by healthy banks of all sizes throughout the country. Because our Articles of Incorporation currently do not authorize us to issue preferred stock, you must approve this amendment in order for us to participate in the program.

The approval of this amendment requires the affirmative vote of shares representing at least 66 2/3% of all of our issued and outstanding common stock, which is a very significant threshold. Therefore, no matter your level of ownership, or whether or not you plan to attend this meeting in person, it is very important that your shares be voted at the special meeting. To make sure your shares are represented, we urge you to vote promptly. You may submit a proxy by mail by completing, signing and dating the enclosed proxy card and returning it promptly in the enclosed envelope.

The board of directors unanimously recommends a vote "for" the amendment to the Articles of Incorporation to authorize the issuance of preferred stock.

We are gratified by your continued interest in us and are pleased that so many of you have voted your shares in the past. We look forward to seeing you at the special meeting.

Sincerely,

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 SPECIAL MEETING OF SHAREHOLDERS  
TO BE HELD \_\_\_\_\_, 2009

Notice is hereby given that a Special Meeting of Shareholders of First Reliance Bancshares, Inc. will be held at First Reliance Bank - Learning Center, 2148 West Palmetto Street in Florence, South Carolina, on \_\_\_\_\_, \_\_\_\_\_, 2009, at 4:00 p.m. local time.

The Special Meeting has been called by the Board of Directors for the following purposes:

- (1) To approve a proposal to amend First Reliance Bancshares, Inc.'s Articles of Incorporation to authorize a class of ten million (10,000,000) shares of preferred stock, no par value. A copy of the Amendment is set forth in Appendix A to this Proxy Statement.
- (2) To grant management of First Reliance Bancshares, Inc. the authority to adjourn the Special Meeting to another time and date in order to allow the Board of Directors to solicit additional proxies or attendance at the Special Meeting.
- (3) To transact any other business that may properly come before the Special Meeting or any adjournment of the Special Meeting.

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

Any action may be taken on any one of the foregoing proposals at the Special Meeting on the date specified above or on any date or dates to which, by original or later adjournments, the Special Meeting may be adjourned. Shareholders of record at the close of business on November 17, 2008 will be entitled to vote at the Special Meeting and any adjournments thereof.

You are requested to fill in and sign the enclosed form of Proxy Card that is solicited by the Board of Directors, and promptly to mail the Proxy Card in the enclosed envelope as described in the attached Proxy Statement. The Proxy Card will not be used if you attend and choose to vote in person at the Special Meeting.

By Order of the Board  
of Directors,

/s/ F.R. Saunders, Jr.  
F.R. Saunders, Jr.  
President and Chief  
Executive Officer

December \_\_, 2008

PLEASE COMPLETE, DATE, AND SIGN THE ENCLOSED PROXY CARD AND RETURN IT PROMPTLY TO FIRST RELIANCE BANCSHARES IN THE ENVELOPE PROVIDED WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING. IF YOU ATTEND THE MEETING, YOU MAY VOTE IN PERSON IF YOU WISH,

EVEN IF YOU HAVE PREVIOUSLY RETURNED YOUR PROXY CARD. IF WE DO NOT RECEIVE ENOUGH PROXY VOTES BY \_\_\_\_\_ YOU MAY BE CONTACTED BY PHONE BY A REPRESENTATIVE OF INVESTORCOM WHO WILL ASK YOU TO RESPOND.

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PROXY STATEMENT FOR THE  
SPECIAL MEETING OF SHAREHOLDERS OF  
FIRST RELIANCE BANCSHARES, INC.

\_\_\_\_\_, 2009

INTRODUCTION

General

This Proxy Statement is being furnished to our shareholders in connection with the solicitation of proxies by our Board of Directors from holders of our common stock, \$0.01 par value, for use at the Special Meeting of Shareholders of First Reliance Bancshares, Inc. to be held at First Reliance Bank - Learning Center, 2148 West Palmetto Street in Florence, South Carolina, on \_\_\_\_\_, \_\_\_\_\_, 2009, at 4:00 p.m. local time, and at any adjournments or postponements thereof. Unless otherwise clearly specified, all references to “First Reliance,” “we,” “us,” and “our” refer to First Reliance Bancshares, Inc.

The Special Meeting is being held to consider and vote upon the proposals summarized under “Summary of Proposals” below and described in greater detail in this Proxy Statement. Our Board of Directors knows of no other business that will be presented for consideration at the Special Meeting other than the matters described in this Proxy Statement.

These proxy materials were first mailed to our shareholders on or about December \_\_, 2008.

The principal executive offices of First Reliance Bancshares, Inc. are located at 2170 W. Palmetto Street Florence, South Carolina 29501, and our telephone number is (843) 656-5000.

Summary of Proposals

The proposal to be considered at the Special Meeting may be summarized as follows:

Proposal One. To approve a proposal to amend First Reliance’s Articles of Incorporation to authorize a class of ten million (10,000,000) shares of preferred stock, no par value. A copy of the Amendment is set forth in Appendix A to this Proxy Statement.

Proposal Two. To grant management of First Reliance the authority to adjourn the Special Meeting to another time and date in order to allow the Board of Directors to solicit additional proxies or attendance at the Special Meeting.

Additionally, the Special Meeting presents the opportunity to transact any other business that may properly come before the Special Meeting or any adjournment of the Special Meeting.

Quorum and Voting Requirements

Holders of record of common stock as of the Record Date, defined below, are entitled to one vote per share on each matter to be considered and voted upon at the Special Meeting. To hold a vote on any proposal, a quorum must be present with respect to that proposal. If a quorum is not present in person or by valid proxy, then a majority of the shares present in person or by valid proxy may recess and reconvene the Special Meeting from time to time. A quorum will be present at the Special 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.

A shareholder who is present in person or by proxy at the Special Meeting and who abstains from voting on any or all proposals will be included in the number of shareholders present at the Special 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 such a case, abstentions will count as votes against the proposal.

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.

Proposal One, relating to the amendment to First Reliance’s Articles of Incorporation (the “Amendment Proposal”), requires approval by two-thirds (66.7%) of the shares outstanding as of the Record Date and entitled to be voted at the Special Meeting. Accordingly, abstentions and broker non-votes will have the effect of a vote against this proposal.

Proposal Two, relating to the authority of First Reliance to adjourn the Special Meeting (the “Adjournment Proposal”), requires that the number of shares voted in favor of the proposal exceed the number of shares voted against the proposal. Accordingly, abstentions and broker non-votes will have no effect on the outcome of voting on this proposal.

Approval of any other matter properly presented for shareholder approval will require that the number of shares voted in favor of the proposal exceed the number of shares voted against the proposal, provided a quorum is present. We know of no other matters that may be brought before the Special Meeting. If, however, any matter (other than the two proposals or a matter incident thereto) of which we do not have reasonable prior notice properly comes before the Special Meeting, the persons appointed as proxies will vote on the matter in accordance with their best judgment.

#### Record Date, Solicitation, and Revocability of Proxies

Our Board of Directors has fixed the close of business on \_\_\_\_\_, 2008 as the record date (“Record Date”) for determining the shareholders entitled to notice of, and to vote at, the Special Meeting. Accordingly, only holders of record of shares of common stock on the Record Date will be entitled to notice of, and to vote at, the Special Meeting. At the close of business on the Record Date, there were 3,523,921 shares of common stock issued and outstanding, which were held by approximately 1,327 holders of record.

Each copy of this Proxy Statement mailed to shareholders is accompanied by a Proxy Card with instructions for voting by mail. Please complete and return the Proxy Card accompanying this Proxy Statement to ensure that your vote is counted at the Special Meeting, or at any adjournment or postponement of the Special Meeting, regardless of whether you plan to attend the Special Meeting.

The presence of a shareholder at the Special Meeting will not automatically revoke that shareholder’s proxy. However, a shareholder may revoke a proxy at any time prior to its exercise by doing any of the following:

- submitting a written revocation prior to the Special Meeting to First Reliance Bancshares, Inc., Inc., 2170 W. Palmetto Street Florence, South Carolina 29501, Attention: F.R. Saunders, Jr., President and Chief Executive Officer;
- submitting another duly executed proxy by mail that is dated later than the original proxy; or
  - attending the Special Meeting and voting in person.

If your shares are held by a broker or bank, you must follow the instructions on the form you receive from your broker or bank with respect to changing or revoking your proxy.

The shares represented by any Proxy Card that is properly executed and received by First Reliance in time to be voted at the Special Meeting will be voted in accordance with the instructions that are marked on the Proxy Card. If you execute your proxy but do not provide First Reliance with any voting instructions, then your shares will be voted "FOR" the Amendment Proposal, "FOR" the Adjournment Proposal, and in accordance with the best judgment of the persons appointed as proxies as to all other matters properly brought before the Special Meeting. No proxy that is marked specifically AGAINST the Amendment Proposal will be voted in favor of the Adjournment Proposal unless the proxy is marked specifically FOR the Adjournment Proposal.

First Reliance will pay the expenses of soliciting proxies for this Special Meeting. First Reliance has retained InvestorCom to assist in the solicitation of proxies for a fee of approximately \$6,500. In addition, certain directors, officers, and employees of First Reliance may personally, or by telephone or other electronic means, solicit proxies for the Special Meeting from shareholders without additional remuneration for soliciting such proxies. We also will provide persons, firms, banks, and corporations holding shares in their names or in the names of nominees, which in either case are beneficially owned by others, proxy materials for transmittal to such beneficial owners and will reimburse such record owners for their expense in taking such actions.

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

The following table sets forth information regarding the beneficial ownership of First Reliance's common stock as of December 4, 2008 by (1) each of our current directors and director nominees; (2) each executive officer named in the Summary Compensation Table included in the proxy statement for our last annual meeting ("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 5% of our outstanding common stock, based on the most recent Schedules 13G and 13D filed with the U.S. Securities and Exchange Commission (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., Inc., 2170 W. Palmetto Street Florence, South Carolina 29501 .

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 (the "Exchange Act"). 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 December 4, 2008 .



| Name of Beneficial Owner   | Amount and Nature of Beneficial Ownership(1) | Percent of Shares Beneficially Owned (2) |
|--|--|--|
| <b>Directors &amp; Named Executive Officers</b>                                  |  |  |
| Leonard A. Hoogenboom  | 21,545(3)                                    | *  |
| John M. Jebaily  | 15,480                                       | *  |
| Andrew G. Kampiziones  | 16,850                                       | *  |
| C. Dale Lusk, M.D.   | 27,500                                       | *  |
| Jeffrey A. Paolucci  | 44,426(4)                                    | 1.25%                                    |
| A. Dale Porter   | 124,019(5)                                   | 3.52%                                    |
| F.R. Saunders, Jr.   | 238,426(6)                                   | 6.56%                                    |
| Paul C. Saunders   | 195,764(7)                                   | 5.37%                                    |
| J. Munford Scott, Jr.  | 6,437(8)                                     | *  |
| A. Joe Willis  | 49,500(9)                                    | 1.40%                                    |
| <b>Non-Director Named Executive Officers</b>                                     |  |  |
| Thomas C. Ewart, Sr.   | 17,991(10)                                   | *  |
| Directors and Executive Officers, as a Group (13 persons)                        | (11)<br>765,943                              | 20.26%                                   |
| <b>Other 5% Shareholders:</b>  |  |  |
| Service Capital Partners, LP, Service Capital Advisors, LLC, and Doris Wiley(13) | 348,203                                      | 9.88%                                    |

\* Less than 1% of outstanding shares.

(1) Information relating to beneficial ownership of the First Reliance is based upon “beneficial ownership” concepts set forth in the rules promulgated under the Exchange Act. Some or all of the shares may be subject to margin accounts.

(2) The percentage of our common stock beneficially owned was calculated based on 3,523,921 shares of common stock issued and outstanding as of September 30, 2008. The percentage assumes the exercise by the shareholder or group named in each row of all options for the purchase of our common stock held by such shareholder or group and exercisable within 60 days of September 30, 2008.

(3) Includes 2,440 shares held by Mr. Hoogenboom’s spouse and 680 shares held as custodian for Mr. Hoogenboom’s two grandchildren.

(4) Includes 2,342 shares of unvested restricted stock, 512 shares held by Mr. Paolucci’s spouse, and 20,000 shares underlying vested options held by Mr. Paolucci.

(5) Includes 245 shares held by Mr. Porter’s spouse.

- (6) Includes 4,727 shares of unvested restricted stock, 850 shares held by Mr. Saunders's children, 10,442 shares held by Mr. Saunders's spouse, and 109,971 shares underlying vested options held by Mr. Saunders.
- (7) Includes 174 shares of unvested restricted stock and 120,871 shares underlying vested options held by Mr. Saunders.
- (8) Includes 437 shares held by Mr. Scott's spouse.
- (9) Includes 49,300 shares held by Mr. Willis's spouse.
- (10) Includes 1,140 shares of unvested restricted stock and 5,205 shares underlying vested options held by Mr. Ewart.
- (11) Includes 256,047 underlying vested options held by reporting persons.
- (12) The principal business office of Service Capital Partners, LP, Service Capital Advisors, LLC, and Doris Wiley is 1700 Pacific Avenue, Suite 2000, Dallas, Texas 75201.

PROPOSAL 1: AMENDMENT TO THE ARTICLES OF INCORPORATION  
TO AUTHORIZE PREFERRED STOCK

Description of and Reasons for the Proposal

The Board of Directors has approved, subject to receiving shareholder approval, an amendment to First Reliance's Articles of Incorporation to authorize a class of 10,000,000 shares of preferred stock, no par value. A copy of the amendment is set forth in Appendix A to this proxy statement. The Articles of Incorporation currently authorize only 20,000,000 shares of common stock, \$0.01 par value. The amendment will vest in the Board the authority to determine the terms of one or more series of preferred stock, including the preferences, rights, and limitations of each series.

Provisions in a corporation's articles of incorporation authorizing preferred stock in this manner are often referred to as "blank check" provisions because they give a board of directors the flexibility, at any time or from time to time, without further shareholder approval (except as may be required by applicable laws, regulatory authorities, or the rules of any stock exchange on which the corporation's securities are then listed), to create one or more series of preferred stock and to determine the terms of each such series. The authority of the board of directors with respect to each series, without limitation, includes a determination of the following: (a) the number of shares to constitute the series, (b) the liquidation rights, if any, (c) the dividend rights and rates, if any, (d) the rights and terms of redemption, (e) the voting rights, if any, which may be full, special, conditional, or limited, (f) whether the shares will be convertible or exchangeable into securities of the company, and the rates thereof, if any, (g) any limitations on the payment of dividends on the common stock while any series is outstanding, (h) any other provisions that are not inconsistent with the articles of incorporation, and (i) any other preference, limitations, or rights that are permitted by law.

The Board believes that the flexibility to issue preferred stock can enhance the Board's arm's-length bargaining capability on behalf of First Reliance's shareholders in a takeover situation. However, under some circumstances, the ability to designate the rights of, and issue, preferred stock could be used by the Board to make a change in control of First Reliance more difficult. The Board of Directors has no present intention of issuing any preferred stock for any defensive or anti-takeover purpose, for the purpose of implementing any shareholder rights plan, or with features specifically intended to make any attempted acquisition of First Reliance more difficult or costly. The Board of Directors could, in the exercise of its fiduciary duties, determine to issue preferred stock for such purposes in the future. The Board of Directors may also issue preferred stock for capital-raising activities or other corporate purposes that have the effect of making an acquisition of First Reliance materially more difficult or costly, as could be the case if the Board of Directors were to issue additional common stock for such purposes. At this time, the only issuance of preferred stock contemplated by the Board of Directors is the potential issuance of preferred stock in the TARP Capital Purchase Program described below, which is intended for capital raising purposes only. For additional information on anti-takeover provisions associated with our capital stock, see "Anti-Takeover Provisions of South Carolina Law and the Articles of Incorporation."

The rights of the holders of First Reliance's common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. To the extent that dividends will be payable on any issued shares of preferred stock, the result would be to reduce the amount otherwise available for payment of dividends on outstanding shares of common stock and there might be restrictions placed on First Reliance's ability to declare dividends on the common stock or to repurchase shares of common stock. The issuance of preferred stock having voting rights would dilute the voting power of the holders of common stock.

To the extent that Preferred Stock is made convertible into shares of common stock, the effect, upon such conversion, would also be to dilute the voting power and ownership percentage of the holders of common stock. In addition, holders of preferred stock would normally receive superior rights in the event of any dissolution, liquidation, or winding-up of First Reliance, thereby diminishing the rights of the holders of common stock to distribution of First Reliance's assets. To the extent that preferred stock is granted preemptive rights, it would entitle the holder to a preemptive right to purchase or subscribe for additional shares of First Reliance.

The Board does not have any plans calling for the issuance of preferred stock at the present time, other than the possible sale of preferred stock to the U.S. Department of the Treasury (the "Treasury") in connection with the Troubled Asset Relief Program ("TARP") Capital Purchase Program described below.

As described in more detail below, First Reliance has applied to participate in the TARP Capital Purchase Program. While filing an application does not obligate us to participate in the program, the Board of Directors anticipates that it will elect to do so if the application is approved. First Reliance cannot participate in the TARP Capital Purchase Program if the proposed amendment to the Articles of Incorporation is not approved. The Treasury's requirements regarding the terms of the preferred stock and warrants are largely non-negotiable and, in some respects, are still being refined as implementation of the program proceeds. Accordingly, in order to participate in the TARP Capital Purchase Program, the Board of Directors must have the flexibility to issue preferred stock that will be provided by the proposed amendment to the Articles of Incorporation. Moreover, the Board believes that the authorization to issue preferred stock will provide First Reliance with greater flexibility in meeting future capital requirements by creating series of preferred stock customized to meet the needs of particular transactions and prevailing market conditions. Series of preferred stock would also be available for issuance from time to time for any other proper corporate purposes, including in connection with strategic alliances, joint ventures, or acquisitions. The Board of Directors remains committed to the long term enhancement of common shareholder value.

#### The TARP Capital Purchase Program

On October 14, 2008, the Treasury announced the TARP Capital Purchase Program. This program was instituted by the Treasury pursuant to the Emergency Economic Stabilization Act of 2008 ("EESA"), which provides up to \$700 billion to the Treasury to, among other things, take equity ownership positions in financial institutions. The minimum investment amount is 1% of an institution's risk-weighted assets. The maximum amount is the lesser of \$25 billion or 3% of its risk-weighted assets. The TARP Capital Purchase Program is intended to encourage financial institutions in the United States to build capital and thereby increase the flow of financing to businesses and consumers.

Under the TARP Capital Purchase Program, the Treasury will purchase shares of senior preferred stock from banks, bank holding companies, and other financial institutions ("TARP Preferred Shares"). TARP Preferred Shares will qualify as Tier 1 capital for regulatory purposes and rank senior to a participating institution's common stock. TARP Preferred Shares will pay a cumulative dividend of 5% per annum for the first five years they are outstanding and thereafter at a rate of 9% per annum. TARP Preferred Shares generally will be non-voting, but will have limited voting rights on matters that could adversely affect the shares. After three years, TARP Preferred Shares will be callable at 100% of the issue price plus any accrued and unpaid dividends. Prior to the end of three years, the TARP Preferred Shares may be redeemed with the proceeds from a qualifying equity offering of any Tier 1 perpetual preferred or common stock. The Treasury's consent will be required for any increase in dividends on common stock or certain repurchases of common stock until the third anniversary of the date of the Treasury's investment unless prior to such third anniversary either the TARP Preferred Shares are redeemed in whole or the Treasury has transferred all the TARP Preferred Shares to third parties.

SEC reporting companies whose common stock is not traded on a national securities exchange are deemed "non-public" for purposes of the TARP Capital Purchase Program. Non-public institutions that participate in the program must issue to the Treasury warrants to purchase additional shares of preferred stock with an aggregate market price equal to

5% of the TARP Preferred Shares purchased by the Treasury. The exercise price of the warrants will be \$0.01 per share. The Treasury has indicated that it intends to exercise the warrants immediately following their issuance. The preferred shares issuable upon exercise of the warrants (the "TARP Warrant Shares") will have the same rights, preferences, privileges, voting rights and other terms as TARP Preferred Shares except that (1) the TARP Warrant Shares will pay dividends at a rate of 9% per annum as (2) the TARP Warrant Shares may not be redeemed until all of the TARP Preferred Shares have been redeemed.

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Institutions that participate in the TARP Capital Purchase Program and their senior executive officers must agree to comply with the standards for executive compensation and corporate governance set forth in Section 111 of EESA for the period during which the Treasury holds preferred stock or warrants issued under the Program.

The description above of the TARP Preferred Shares and related elements of the TARP Capital Purchase Program is intended only to summarize the Program. See Appendix B for the Summary of Preferred Terms and Summary of Warrant Terms as published by the Treasury for non-public qualifying financial institutions, excluding S corporations and mutual organizations.

#### First Reliance's TARP Application

First Reliance filed an application on November 12, 2008 to participate in the TARP Capital Purchase Program, seeking a \$14.9 million investment, the maximum permitted under the program. For First Reliance, the minimum amount of investment would be approximately \$4.9 million. While filing an application does not obligate the Company to participate in the program, the Board of Directors anticipates that it will elect to do so if the application is approved. The Treasury is not obligated to accept our application to participate in the program. Accordingly, the estimated proceeds from the sale of securities to the Treasury are not guaranteed. If the Treasury were to deny First Reliance's application or reduce the amount of capital available to First Reliance under the TARP Capital Purchase Program, management does not believe that First Reliance's liquidity, capital resources, or results of operations would be materially affected.

Any TARP Preferred Shares issued by First Reliance will qualify as Tier 1 capital and will rank senior to our common stock, the only class of equity securities we currently have outstanding. The primary effect of a TARP Capital Purchase Program investment in First Reliance would be to materially increase our regulatory capital ratios. The following table presents our actual capital ratios as of September 30, 2008 and our capital ratios on a pro forma basis to illustrate the effects of issuing TARP Preferred Stock at the maximum and minimum program levels.

| Regulatory Capital Ratios | September 30, 2008<br>Actual | Pro Forma as of<br>September 30, 2008<br>Assuming Sale of \$4.9<br>Billion of Preferred Stock<br>Pursuant to the Program | Pro Forma as of<br>September 30, 2008<br>Assuming Sale of \$14.9<br>Billion of Preferred Stock<br>Pursuant to the Program |
|---------------------------|------------------------------|--|---|
|                           |                              | 9.40%  | 10.91%  |
| Tier I Leverage Ratio     | 8.63%                        | 9.40%  | 10.91%  |
| Tier I Risk Based Ratio   | 10.09%                       | 11.07%   | 13.01%  |
| Total Risk Based Ratio    | 11.34%                       | 12.31%   | 14.25%  |

If First Reliance participates in the TARP Capital Purchase Program, the preferred shares it would issue to the Treasury would pay a cumulative dividend rate of five percent (5%) per annum for the first five years and reset to a rate of nine percent (9%) per annum after year five. The TARP Preferred Shares would be non-voting, other than class voting rights on matters that could adversely affect the shares, and would be callable at 100% of the issue price after three years. Prior to the end of three years, the TARP Preferred Shares may be redeemed for 100% of their issue price, with the proceeds from a qualifying equity offering of any Tier 1 perpetual preferred or common stock, the aggregate gross proceeds of which exceed 25% of the issue price. First Reliance would be prohibited from paying or declaring dividends on any junior preferred shares, preferred shares with equal ranking, or common shares unless all accrued and unpaid dividends for all past dividend periods have been declared and paid in full. The Company would also be prohibited from repurchasing or redeeming any junior or pari passu preferred shares, or common shares during periods dividends on the TARP Preferred Shares are unpaid.

During the initial three-year term, the Company would have to obtain approval in advance from the Treasury to begin paying dividends on its common stock unless the Treasury has transferred to third parties all of the securities it acquired from the Company or the shares have been redeemed. Similarly, the Treasury's consent would be required for the Company to increase dividends by more than 3% in the aggregate over the prior year's dividends from after the third anniversary and prior to the tenth anniversary of the Treasury's initial investment unless all of the shares have been transferred to third parties or redeemed. However, no increase in dividends on common shares may be made between year three and year ten as a result of any dividend paid in common shares, any stock split or similar transaction. From and after the tenth anniversary of the initial investment, the Company would be prohibited from paying any dividends on common shares until the securities acquired by the Treasury are redeemed or have been transferred to third parties.

For as long as the TARP Preferred Shares are outstanding, the Company would not be able to repurchase or redeem preferred shares ranking junior or pari passu with the TARP Preferred Shares or common shares unless all accrued and unpaid dividends for all past dividend periods have been declared and paid in full. Until the tenth anniversary of the date of the Treasury's investment, the Treasury's consent would be required for the Company to repurchase any of its outstanding equity securities or trust preferred securities, other than repurchases of the TARP Preferred Shares and repurchases of preferred stock ranking junior to the TARP Preferred Shares or common shares in connection with any benefit plan in the ordinary course of business consistent with past practice. The Treasury's consent would not be required if the shares have been redeemed or transferred to third parties.

In addition to the TARP Preferred Shares that it must initially issue to the Treasury, if the Company participates in the program it would be required to issue the Treasury warrants to purchase additional shares of the Company's preferred stock equal to 5% of the value of the TARP Preferred Shares. These shares are referred to herein as "TARP Warrant Shares" and would have the same rights and preferences as the TARP Preferred Shares except that the dividend rate for these shares would be 9%. The initial exercise price of these warrants would be \$0.01 per share and may be exercised on a "net" basis, meaning that the Treasury would not be required to pay cash to exercise the warrants. Although the warrants will have a term of 10 years, the Treasury has indicated that it would immediately exercise them upon issuance.

The TARP Preferred Shares, warrants and TARP Warrant Shares, would be freely transferable and the Company would be required to file a registration statement with the SEC covering the securities if requested to do so by the Treasury.

If the Company fails to pay dividends on the TARP Preferred Shares for a total of six quarters, whether or not consecutive, the Company's Board of Directors would automatically be increased by two members and the holders of the TARP Preferred Shares, voting together with any other holders of preferred shares ranking pari passu with the TARP Preferred Shares, would have the right to elect two directors to fill the vacancies on the Board of Directors created by the increase. These directors would serve on the Board of Directors until such time as the Company has

paid in full all dividends not previously paid, at which time these directors' terms of office would immediately terminate.

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Management does not believe that acceptance of the TARP Capital Purchase Program investment would have any material impact on the operations of the Company. However, for as long as the Treasury owns any securities of the Company issued under the program, the Company will be required to take all necessary action to ensure that its benefit plans with respect to its senior executive officers comply in all respects with Section 111(b) of the EESA, and the regulations issued and in effect thereunder as of the closing date of the sale of the securities to the Treasury. This means that, among other things, while the Treasury owns equity securities issued by the Company in connection with the program, the Company must:

- ensure that the incentive compensation programs for its senior executive officers do not encourage unnecessary and excessive risks that threaten the value of the Company;
- implement a required clawback of any bonus or incentive compensation paid to the Company's senior executive officers based on statements of earnings, gains, or other criteria that are later proven to be materially inaccurate;
- not make any "golden parachute payment" (as defined in the Internal Revenue Code) to any of the Company's senior executive officers; and
- agree not to deduct for tax purposes executive compensation in excess of \$500,000 in any one fiscal year for each of the Company's senior executive officers.

The Company is currently reviewing its benefit plans and contracts to determine whether any amendments or modifications will be required to comply with the limits on executive compensation established by Section 111 of the EESA. If any such modifications or amendments are required, the Company and its senior executive officers, if necessary, will modify or amend such plans and agreements prior to the Company's entering into the definitive documentation necessary to consummate the investment.

At September 30, 2008, First Reliance and its bank subsidiary had capital ratios in excess of those required to be considered "well-capitalized" under banking regulations. Nevertheless, the Board believes it is prudent for First Reliance to apply for capital available under the TARP Capital Purchase Program because (i) it believes that the cost of capital under this program is significantly lower than the cost of capital otherwise available to First Reliance at this time, and (ii) despite being well-capitalized, additional capital under the program would provide First Reliance and its bank subsidiary additional flexibility to meet future capital needs that may arise. Specifically, if First Reliance receives the \$14.9 million of capital that it applied for under the TARP Capital Purchase Program, then First Reliance plans to contribute \$11.1 million to its bank subsidiary and to retain the remainder of the proceeds at the parent company level for general corporate purposes. If First Reliance receives the minimum \$4.9 million available to it under the TARP Capital Purchase Program, it plans to contribute \$3.7 million to its bank subsidiary and retain the remainder of the proceeds at the parent company level as described above. In either case, First Reliance's bank subsidiary intends to use the additional capital to fund prudent loan growth in its markets and to further strengthen its capital position.

#### Pro Forma Financial Information

The following unaudited pro forma financial information of First Reliance as of and for the fiscal year ended December 31, 2007 and the nine months ended September 30, 2008 show the effects of a minimum of \$4.9 million and a maximum of \$14.9 million of TARP Preferred Shares issued to the Treasury pursuant to the program for non-public financial institutions. We have presented this financial information under two different scenarios:

- o The minimum investment, which assumes the issuance under the program of 4,900 shares of TARP Preferred Shares at \$1,000 per share and the issuance of a warrant to purchase TARP Warrant Shares with an aggregate liquidation preference equal to 5% of the investment, or 245 additional shares at an exercise price of \$0.01 per share, and
- o The maximum investment, which assumes the issuance under the program of 14,900 shares of TARP Preferred Shares at \$1,000 per share and the issuance of a warrant to purchase TARP Warrant Shares with an aggregate liquidation preference equal to 5% of the investment, or 745 additional shares at an exercise price of \$0.01 per share.

The TARP Preferred Shares will pay cumulative dividends at a rate of 5% per annum for the first five years and 9% per annum thereafter. The cash proceeds from the investment are reflected in the balance sheets as a reduction of borrowings and the associated reduction in the interest expense, net of tax, is included in the income statements. The effective dividend on TARP Preferred Shares in the following pro forma financial information includes amortization of the discount over a five-year period using the effective yield method and dividends on both the TARP Preferred Shares at 5% and on the TARP Warrant Shares at 9%.

There is the possibility that participation in the program will impact future net income available to our common shareholders due to future dividends and accretion charges related to the preferred stock issued to the Treasury. The pro forma financial data presented below may change materially under either the minimum investment or maximum investment scenario based on the actual proceeds received under the program if our application is approved by Treasury, the timing and utilization of the proceeds, as well as certain other factors including the discount rate used to determine the fair value of the TARP Preferred Shares. Accordingly, we can provide no assurance that the minimum or maximum investment pro forma scenarios included in the consolidated financial data will ever be achieved. We have included the following unaudited pro forma consolidated financial data solely for the purpose of providing shareholders with information that may be useful for purposes of considering and evaluating the proposals to amend our Articles of Incorporation.

This financial data should be read in conjunction with our audited financial statements and the related notes filed as part of our Annual Report on Form 10-K for the year ended December 31, 2007, and our unaudited consolidated financial statements and the related notes filed as part of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.

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As of September 30, 2008

Actual As Adjusted As Adjusted  
(Unaudited) (Minimum) (2) (Maximum) (2)

Balance Sheet data:

ASSETS

|  |                |                |                |
|--|----------------|----------------|----------------|
| Cash and due from banks (1)                  | \$ 5,928,325   | \$ 5,928,325   | \$ 5,928,325   |
| Securities and other interest earning assets | 60,905,131     | 60,905,131     | 60,905,131     |
| Loans, net                                   | 464,702,919    | 464,702,919    | 464,702,919    |
| Other assets                                 | 42,137,307     | 42,137,307     | 42,137,307     |
| Total assets                                 | \$ 573,673,682 | \$ 573,673,682 | \$ 573,673,682 |

LIABILITIES AND SHAREHOLDERS' EQUITY

|                         |             |             |             |
|-------------------------|-------------|-------------|-------------|
| Deposits                | 447,558,635 | 447,558,635 | 447,558,635 |
| Borrowings              | 75,865,414  | 70,965,414  | 60,965,414  |
| Subordinated debentures | 10,310,000  | 10,310,000  | 10,310,000  |
| Other liabilities       | 1,984,590   | 1,984,590   | 1,984,590   |
| Total liabilities       | 535,718,639 | 535,718,639 | 535,718,639 |

Shareholders' equity:

|  |             |             |             |
|--|-------------|-------------|-------------|
| Senior preferred stock (1)             | -           | 4,900,000   | 14,900,000  |
| Warrant preferred stock (1)            | -           | 245,000     | 745,000     |
| Discount on senior preferred stock (3) | -           | (278,000)   | (845,000)   |
| Premium on warrant preferred stock (3) | -           | 33,000      | 100,000     |
| Common stock                           | 35,239      | 35,239      | 35,239      |
| Nonvested restricted stock             | (247,637)   | (247,637)   | (247,637)   |
| Capital surplus                        | 26,114,785  | 26,114,785  | 26,114,785  |
| Treasury stock                         | (155,259)   | (155,259)   | (155,259)   |
| Retained earnings                      | 13,488,095  | 13,488,095  | 13,488,095  |
| Accumulated other comprehensive loss   | (1,280,180) | (1,280,180) | (1,280,180) |
| Total shareholders' equity             | 37,955,043  | 42,855,043  | 52,855,043  |

|  |                |                |                |
|--|----------------|----------------|----------------|
| Total liabilities and shareholders' equity | \$ 573,673,682 | \$ 578,573,682 | \$ 588,573,682 |
|--|----------------|----------------|----------------|

Capital Ratios:

|                                 |        |        |        |
|---------------------------------|--------|--------|--------|
| Tier 1 leverage ratio           | 8.63%  | 9.40%  | 10.91% |
| Tier 1 risk-based capital ratio | 10.09% | 11.07% | 13.01% |
| Total risk-based capital ratio  | 11.34% | 12.31% | 14.25% |

(1) The pro forma financial information reflects the issuance of a minimum of \$4,900,000 and a maximum of \$14,900,000 of TARP Preferred Shares, with the proceeds reducing borrowings. The proforma balance of preferred stock also includes a minimum par value of \$245,000 and a maximum of \$745,000 of TARP Warrant Shares resulting from the exercise of warrants, yielding negligible cash proceeds.

- (2) The balance sheet data gives effect to the issuance of the TARP Preferred Shares as of the balance sheet date.
- (3) Under the Program for non-public financial institutions, we will be required to issue to Treasury a warrant to acquire additional preferred shares equal to 5% of the amount of TARP Preferred Shares purchased by the Treasury. The warrant is exercisable at \$.01 per share, which would generate virtually no proceeds to First Reliance. The Program terms also provide that the warrant will be exercised immediately upon issuance of the TARP Preferred Shares and the Treasury has indicated its intent to exercise such warrants immediately following issuance. The TARP Warrant Shares carry a dividend rate of 9% from the date of issuance, which differs from the dividend on the TARP Preferred Shares of 5% for the first five years and then 9% thereafter. Using the assumption of the issuance of \$14.9 million of TARP Preferred Shares, a warrant for an additional \$745,000 TARP Warrant Shares would be issued and exercised immediately, with essentially no additional proceeds to our company upon exercise. As a result, we would record total TARP Preferred Shares at their redemption value of \$14.9 million, additional TARP Warrant Shares issuable upon exercise of a warrant of \$745,000, a discount of \$845,000 on the TARP Preferred Shares and a premium of \$100,000 related to the TARP Warrant Shares. This issuance results in an initial net increase in equity of \$14.9 million representing the cash proceeds from issuance of the TARP Preferred Shares. The accretion of the discount resulting from the issuance of the TARP Preferred Shares would extend over five years and be recorded as an increase in dividends and corresponding decrease in net income available to common shareholders. The amortization of the premium resulting from the issuance of the TARP Warrant Shares would extend over five years and be recorded as an decrease in dividends and corresponding increase in net income available to common shareholders.

|   | As of December 31, 2007 |                              |                              |
|---|-------------------------|------------------------------|------------------------------|
|   | Actual (1)              | As Adjusted<br>(Minimum) (2) | As Adjusted<br>(Maximum) (2) |
| <b>Balance Sheet data:</b>                        |                         |                              |                              |
| <b>ASSETS</b>                                     |                         |                              |                              |
| Cash and due from banks (2)                       | \$ 7,164,650            | \$ 7,164,650                 | \$ 7,164,650                 |
| Securities and other interest earning assets      | 62,510,713              | 62,510,713                   | 62,510,713                   |
| Loans, net  | 482,467,933             | 482,467,933                  | 482,467,933                  |
| Other assets                                      | 39,560,916              | 39,560,916                   | 39,560,916                   |
| <b>Total assets</b>                               | <b>\$ 591,704,212</b>   | <b>\$ 591,704,212</b>        | <b>\$ 591,704,212</b>        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |                         |                              |                              |
| Deposits  | 449,497,715             | 449,497,715                  | 449,497,715                  |
| Borrowings  | 93,286,754              | 88,386,754                   | 78,386,754                   |
| Subordinated debentures                           | 10,310,000              | 10,310,000                   | 10,310,000                   |
| Other liabilities                                 | 1,581,839               | 1,581,839                    | 1,581,839                    |
| <b>Total liabilities</b>                          | <b>554,676,308</b>      | <b>549,776,308</b>           | <b>539,776,308</b>           |
| <b>Shareholders' equity:</b>                      |                         |                              |                              |
| Senior preferred stock (2)                        | -                       | 4,900,000                    | 14,900,000                   |
| Warrant preferred stock (2)                       | -                       | 245,000                      | 745,000                      |
| Discount on senior preferred stock (4)            | -                       | (278,000)                    | (845,000)                    |
| Premium on warrant preferred stock (4)            | -                       | 33,000                       | 100,000                      |
| Common stock                                      | 34,946                  | 34,946                       | 34,946                       |
| Nonvested restricted stock                        | (152,762)               | (152,762)                    | (152,762)                    |
| Capital surplus                                   | 25,875,012              | 25,875,012                   | 25,875,012                   |
| Treasury stock                                    | (145,198)               | (145,198)                    | (145,198)                    |
| Retained earnings                                 | 11,417,275              | 11,417,275                   | 11,417,275                   |
| Accumulated other comprehensive loss              | (1,369)                 | (1,369)                      | (1,369)                      |
| <b>Total shareholders' equity</b>                 | <b>37,027,904</b>       | <b>41,927,904</b>            | <b>51,927,904</b>            |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 591,704,212</b>   | <b>\$ 591,704,212</b>        | <b>\$ 591,704,212</b>        |

(1) Derived from audited financial statements.

(2) The pro forma financial information reflects the issuance of a minimum of \$4,900,000 and a maximum of \$14,900,000 of TARP Preferred Shares, with the proceeds reducing borrowings. The pro forma balance of preferred stock also includes a minimum par value of \$245,000 and a maximum of \$745,000 of TARP Warrant Shares resulting from the exercise of warrants, yielding negligible cash proceeds.

(3) The balance sheet data gives effect to the issuance of the TARP Preferred Shares as of the balance sheet date.

(4) Under the Program for non-public financial institutions, we will be required to issue to Treasury a warrant to acquire additional preferred shares equal to 5% of the amount of TARP Preferred Shares purchased by the

Treasury. The warrant is exercisable at \$.01 per share, which would generate virtually no proceeds to First Reliance. The Program terms also provide that the warrant will be exercised immediately upon issuance of the TARP Preferred Shares and the Treasury has indicated its intent to exercise such warrants immediately following issuance. The TARP Warrant Shares carry a dividend rate of 9% from the date of issuance, which differs from the dividend on the TARP Preferred Shares of 5% for the first five years and then 9% thereafter. Using the assumption of the issuance of \$14.9 million of TARP Preferred Shares, a warrant for an additional \$745,000 TARP Warrant Shares would be issued and exercised immediately, with essentially no additional proceeds to our company upon exercise. As a result, we would record total TARP Preferred Shares at their redemption value of \$14.9 million, additional TARP Warrant Shares issuable upon exercise of a warrant of \$745,000, a discount of \$845,000 on the TARP Preferred Shares and a premium of \$100,000 related to the TARP Warrant Shares. This issuance results in an initial net increase in equity of \$14.9 million representing the cash proceeds from issuance of the TARP Preferred Shares. The accretion of the discount resulting from the issuance of the TARP Preferred Shares would extend over five years and be recorded as an increase in dividends and corresponding decrease in net income available to common shareholders. The amortization of the premium resulting from the issuance of the TARP Warrant Shares would extend over five years and be recorded as a decrease in dividends and corresponding increase in net income available to common shareholders.

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For the Nine Months Ended September 30, 2008

Actual (Unaudited) As Adjusted (Minimum) (1) As Adjusted (Maximum) (1)

| Income Statement data:                              |               |               |               |
|---|---------------|---------------|---------------|
| Total interest income (2)                           | \$ 28,169,083 | \$ 28,169,083 | \$ 28,169,083 |
| Total interest expense (1)                          | 13,469,729    | 13,337,429    | 13,067,429    |
| Net interest income                                 | 14,699,354    | 14,831,654    | 15,101,654    |
| Provision for loan losses                           | 1,757,364     | 1,757,364     | 1,757,364     |
| Net interest income after provision for loan losses | 12,941,990    | 13,074,290    | 13,344,290    |
| Total non-interest income                           | 3,893,453     | 3,893,453     | 3,893,453     |
| Total non-interest expenses                         | 13,941,367    | 13,941,367    | 13,941,367    |
| Income before income taxes                          | 2,894,076     | 3,026,376     | 3,296,376     |
| Provision for income taxes (1)                      | 619,354       | 644,336       | 756,136       |
| Net income  | \$ 2,274,722  | \$ 2,362,040  | \$ 2,540,240  |
| Dividend on preferred stock                         |               | \$ (183,750)  | \$ (558,750)  |
| Amortization of discount on preferred stock         |               | (36,400)      | (111,005)     |
| Effective dividend on preferred stock (4)           |               | (220,150)     | (669,755)     |
| Dividend on warrant preferred                       |               | (16,538)      | (50,288)      |
| Accretion of premium on warrant preferred           |               | 4,200         | 12,665        |
| Effective dividend on warrant preferred (4)         |               | (12,338)      | (37,623)      |
| Net income available to common shareholders         |               | \$ 2,129,553  | \$ 1,832,863  |
| Basic net income per common share                   | \$ 0.65       | \$ 0.61       | \$ 0.52       |
| Diluted net income per common share                 | \$ 0.64       | \$ 0.60       | \$ 0.52       |
| Weighted average basic shares outstanding           | 3,509,597     | 3,509,597     | 3,509,597     |
| Weighted average diluted shares outstanding         | 3,531,198     | 3,531,198     | 3,531,198     |

(1) Income statement data gives effect to the equity proceeds at the beginning of the period, and assumes the cash proceeds were used to reduce borrowings at the beginning of the period. The reduction in interest expense on the assumed reduction is based on a 3.6% blended rate, reduced by income tax at 34%. The actual impact to net interest income will be different because we expect to utilize a portion of the proceeds to reduce debt and fund loan growth. It is also possible that a portion of the proceeds could be used in acquisitions of other institutions.

(2)

The funds received from the preferred stock issue are assumed to reduce borrowed funds. Subsequent redeployment of the funds is anticipated, but the timing of such redeployment is uncertain.

- (3) The issuance costs expected to be incurred are immaterial; therefore, no effect was given in the pro forma.
- (4) The effective dividend on TARP Preferred Shares includes amortization of the discount, accreted over a five-year period using the effective yield method with an effective yield of approximately 6% and dividends on TARP Preferred Shares at 5%. The effective dividend on TARP Warrant Shares includes amortization of the premium, amortized over a five-year period using the effective yield method with an effective yield of approximately 6% and dividends on TARP Warrant Shares at 9%.



For the Year Ended December 31, 2007

|   | Actual (1)    | As Adjusted<br>(Minimum) (2) | As Adjusted<br>(Maximum) (2) |
|---|---------------|------------------------------|------------------------------|
| Total interest income (3)                           | \$ 37,540,487 | \$ 37,540,487                | \$ 37,540,487                |
| Total interest expense (2)                          | 18,433,209    | 18,282,289                   | 17,974,289                   |
| Net interest income                                 | 19,107,278    | 19,528,198                   | 19,566,198                   |
| Provision for loan losses                           | 1,643,100     | 1,643,100                    | 1,643,100                    |
| Net interest income after provision for loan losses | 17,464,178    | 17,615,098                   | 17,923,098                   |
| Total non-interest income                           | 5,301,799     | 5,301,799                    | 5,301,799                    |
| Total non-interest expenses                         | 18,961,275    | 18,961,275                   | 18,961,275                   |
| Income before income taxes                          | 3,804,702     | 3,955,622                    | 4,263,622                    |
| Provision for income taxes (2)                      | 1,245,182     | 1,296,495                    | 1,401,215                    |
| Net income  | \$ 2,559,520  | \$ 2,659,127                 | \$ 2,862,407                 |
| Dividend on preferred stock                         |               | \$ (245,000)                 | \$ (745,000)                 |
| Amortization of discount on preferred stock         |               | (48,300)                     | (147,510)                    |
| Effective dividend on preferred stock (5)           |               | (293,300)                    | (892,510)                    |
| Dividend on warrant preferred                       |               | (22,050)                     | (67,050)                     |
| Accretion of premium on warrant preferred           |               | 5,600                        | 16,390                       |
| Effective dividend on warrant preferred (5)         |               | (16,450)                     | (50,660)                     |
| Net income available to common shareholders         |               | \$ 2,349,377                 | \$ 1,919,237                 |
| Basic net income per common share                   | \$ 0.74       | \$ 0.68                      | \$ 0.55                      |
| Diluted net income per common share                 | \$ 0.72       | \$ 0.66                      | \$ 0.54                      |
| Average basic shares outstanding                    | 3,466,008     | 3,466,008                    | 3,466,008                    |
| Average diluted shares outstanding                  | 3,536,961     | 3,536,961                    | 3,536,961                    |

(1) Derived from audited consolidated financial statements.

(2) The income statement data gives effect to the equity proceeds at the beginning of the period, and assumes the cash proceeds were used to reduce borrowings at the beginning of the period. The reduction in interest expense on the assumed reduction is based on a 3.08% blended rate, reduced by income tax at 34%. The actual impact to net interest income will be different because we expect to utilize a portion of the proceeds to reduce debt and fund loan growth. It is also possible that a portion of the proceeds could be used in acquisitions of other institutions.

- (3) The funds received from the issuance of the TARP Preferred Shares are assumed to reduce borrowed funds. Subsequent redeployment of the funds is anticipated, but the timing of such redeployment is uncertain.
- (4) The issuance costs expected to be incurred are immaterial; therefore, no effect was given in the pro forma.
- (5) The effective dividend on the TARP Preferred Shares includes accretion of the discount over a five-year period using the effective yield method with an effective yield of approximately 7% and dividends on the TARP Preferred Shares at 5%. The effective dividend on the TARP Warrant Shares includes amortization of the premium, amortized over a five-year period using the effective yield method with an effective yield of approximately 7% and dividends on TARP Warrant Shares at 9%.

We have included the unaudited pro forma consolidated financial data solely for the purpose of providing shareholders with information that may be useful for purposes of considering and evaluating the proposal to amend our Articles of Incorporation. Our future results are subject to prevailing economic and industry specific conditions and financial, business and other known and unknown risks and uncertainties, certain of which are beyond our control. These factors include, without limitation, those described in this Proxy Statement and those described under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2007, in Item 1A of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 and in our other reports filed with the SEC.

The Board recommends that shareholders vote FOR the Amendment Proposal.

PROPOSAL 2: TO AUTHORIZE MANAGEMENT TO ADJOURN  
THE SPECIAL MEETING IF NECESSARY

If the number of shares of common stock present or represented at the Special Meeting and voting in favor of the Amendment Proposal is insufficient to approve the Amendment Proposal, then First Reliance's management may move to adjourn the Special Meeting in order to enable the Board to continue to solicit additional proxies in favor of the Amendment Proposal. In that event, you will be asked only to vote upon the Adjournment Proposal but not the Amendment Proposal.

In this Adjournment Proposal, the Board is asking you to authorize the holder of any proxy solicited by the Board to vote in favor of adjourning the Special Meeting and any later adjournment under the circumstances described above. If the shareholders approve this Adjournment Proposal, then management could adjourn the Special Meeting (and any adjourned section of the Special Meeting) to use the additional time to solicit additional proxies in favor of the Amendment Proposal, including the solicitation of proxies from shareholders that have previously voted against the Amendment Proposal. Among other things, approval of the Adjournment Proposal could mean that even if proxies representing a sufficient number of votes against the Amendment Proposal have been received, management could adjourn the Special Meeting without a vote on the Amendment Proposal and seek to convince the holders of those shares to change their votes to vote in favor of the Amendment Proposal.

The Board believes that if the number of shares of common stock present or represented at the Special Meeting and voting in favor of the Amendment Proposal is insufficient to approve that proposal, it is in the best interests of First Reliance's shareholders to enable the Board, for a limited period of time, to continue to seek to obtain a sufficient number of additional votes to approve the Amendment Proposal.

The Board recommends that shareholders vote FOR the Adjournment Proposal.

ANTI-TAKEOVER PROVISIONS OF SOUTH CAROLINA LAW  
AND THE ARTICLES OF INCORPORATION

The provisions of South Carolina law summarized in the following paragraphs may have anti-takeover effects and may delay, defer, or prevent a tender offer, takeover attempt, or merger that a shareholder might consider to be in the shareholder's best interest.

Merger, Share Exchange, Sale of Assets

South Carolina law provides that, with respect to any plan of merger or share exchange, our Board of Directors must recommend and submit the plan to a vote of our shareholders. For First Reliance to adopt the plan, the plan of merger or share exchange must be approved by at least two-thirds of our outstanding common shares.

With respect to any sale of all, or substantially all, of First Reliance's property or assets, other than in the normal course of business, our Board of Directors must recommend the sale, and submit the plan, to a vote of our shareholders. To be effective, the sale of property or assets must be approved by at least two-thirds of our outstanding common shares.

Business Combinations

South Carolina's Business Combinations statute prohibits a 10% or greater shareholder of a resident domestic corporation from entering into a "business combination" (defined in the statute) with the corporation for a period of two years following the date on which the shareholder became a 10% or greater shareholder, unless prior to the shareholder becoming a 10% or greater shareholder, the business combination was approved by a majority of the disinterested members of the corporation's board of directors. This statute also prohibits a 10% or greater shareholder of a resident domestic corporation from entering, at any time, into a business combination with the corporation, unless certain approvals of the board of directors or disinterested shareholders are obtained, or unless the consideration given by the 10% or greater shareholder meets certain minimum-price standards that the statute sets forth.

This statute is designed to provide broad protection against unfriendly takeover attempts, but a South Carolina corporation may opt-out of the protection by including a provision to that effect in the corporation's articles of incorporation. Our Articles of Incorporation do not contain an opt-out provision; therefore, the statute's protections apply to us. The statute only applies to us for as long as we continue to have a class of voting shares registered under Section 12 of the Securities and Exchange Act of 1934.

Control Share Acquisitions

South Carolina's Control Share Acquisitions statute precludes, under certain circumstances, a purchaser of shares of a South Carolina corporation from obtaining voting control of shares that exceed one of three voting thresholds (20%, 33 1/3%, or 50%), unless a majority of the disinterested shareholders entitled to vote accord voting power to the shares that exceed the threshold. A South Carolina corporation's articles of incorporation or bylaws may permit the corporation to redeem the voting-control shares if the purchaser did not comply with certain statutory requirements or if the shareholders do not accord voting power to the voting-control shares. Neither our Articles of Incorporation nor our Bylaws permit us to redeem these voting-control shares. The statute only applies to us for as long as we continue to have a class of voting shares registered under Section 12 of the Securities and Exchange Act of 1934.

The provisions of South Carolina law described above, to the extent applicable, will have the general effect of discouraging or rendering more difficult unfriendly takeover or acquisition attempts. Consequently, such provisions would be beneficial to current management in an unfriendly takeover attempt but could have an adverse effect on shareholders who might wish to participate in such a transaction. However, First Reliance believes that such

provisions are advantageous to the shareholders in that these provisions will (1) permit management and the shareholders to carefully consider and understand a proposed acquisition, (2) lead to higher offering prices, and (3) require a higher level of shareholder participation in the decision.