

Report of Organizational Actions Affecting Basis of Securities

▶ See separate instructions.

Part I Reporting Issuer

1 Issuer's name Palmetto Bancshares, Inc.		2 Issuer's employer identification number (EIN) 74-2235055	
3 Name of contact for additional information Roy D. Jones - Chief Financial Officer	4 Telephone No. of contact 864-240-5104	5 Email address of contact rjones@palmettobank.com	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact 306 East North Street		7 City, town, or post office, state, and Zip code of contact Greenville, SC 29601	
8 Date of action June 28, 2011		9 Classification and description Common Stock of Palmetto Bancshares, Inc.	
10 CUSIP number 697062206	11 Serial number(s)	12 Ticker symbol PLMT	13 Account number(s)

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ **At 11:59 p.m. on June 28, 2011, Palmetto Bancshares, Inc. (the Company) completed a 1 for 4 reverse stock split of its common stock. Every four shares of its then-existing common stock (old CUSIP #697062107) was converted into one share of newly issued common stock. Fractional shares were rounded up to the next whole share. There was no cash issued in connection with the reverse stock split.**

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ **As a result of the reverse stock split, the number of shares attributable to each shareholder was determined by taking their original number of pre-split shares, dividing by four and rounding up to the nearest whole share. The basis of the pre-split shares is determined by taking the total basis of pre-split holdings and dividing the amount by the number of post-split shares received. The reverse stock split had no impact on the overall economic value of the Company.**

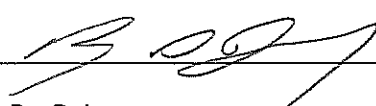
16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ **As a result of the reverse stock split, the number of shares attributable to each shareholder was determined by taking their original number of pre-split shares, dividing by four and rounding up to the nearest whole share. The basis of the pre-split shares is determined by taking the total basis of pre-split holdings and dividing the amount by the number of post-split shares received. The reverse stock split had no impact on the overall economic value of the Company.**

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶
IRS Code Section 305 - Distribution of Stock and Stock Rights

18 Can any resulting loss be recognized? ▶ _____

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶
The reverse stock split occurred in tax years including June 28, 2011.

Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.			
	Signature ▶ 	Date ▶ <u>1/13/12</u>		
Paid Preparer Use Only	Print your name ▶ <u>Roy D. Jones</u>	Title ▶ <u>Chief Financial Officer</u>		
	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed PTIN
	Firm's name ▶	Firm's EIN ▶		
	Firm's address ▶	Phone no.		