

FIRST NATIONAL LINCOLN CORP /ME/  
Form 10-K  
March 14, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

**FORM 10-K**

**X Annual Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**

**For the Fiscal Year ended December 31, 2007**

**Commission File Number 0-26589**

**FIRST NATIONAL LINCOLN CORPORATION**

(Exact name of Registrant as specified in its charter)

**MAINE 01-0404322**

(State or other jurisdiction of incorporation or organization)(I.R.S. Employer Identification No.)

**MAIN STREET, DAMARISCOTTA, MAINE 04543**

(Address of principal executive offices) (Zip code)

**(207) 563-3195**

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, \$.01 par value per share**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

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

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

**Common Stock, \$.01 par value per share: \$149,597,000**

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of March 14, 2008

**Common Stock: 9,707,096 shares**

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**ITEM 1. Discussion of Business**

First National Lincoln Corporation (the Company) was incorporated under the laws of the State of Maine on January 15, 1985, for the purpose of becoming the parent holding company of The First National Bank of Damariscotta, which was chartered as a national bank under the laws of the United States on May 30, 1864. On January 14, 2005, the acquisition of FNB Bankshares ( FNB ) of Bar Harbor, Maine, was completed, adding seven banking offices and one investment management office in Hancock and Washington counties of Maine. FNB's subsidiary, The First National Bank of Bar Harbor, was merged into The First National Bank of Damariscotta at closing, and as of January 31, 2005, the combined banks have operated under a new name: The First, N.A. (the Bank).

As of December 31, 2007, the Company's securities consisted of one class of common stock, \$.01 par value per share, of which there were 9,732,493 shares outstanding and held of record by approximately 2,200 shareholders. The common stock of the Bank is the principal asset of the Company, which has no other subsidiaries. The Bank's capital stock consists of one class of common stock of which 120,000 shares, par value \$2.50 per share, are authorized and outstanding. All of the Bank's common stock is owned by the Company.

The Bank emphasizes personal service, and customers are primarily small businesses and individuals for whom the Bank offers a wide variety of services, including deposit accounts, consumer and commercial and mortgage loans. The Bank has not made any material changes in its mode of conducting business during the past five years. The banking business in the Bank's market area is seasonal with lower deposits in the winter and spring and higher deposits in the summer and fall. This swing is predictable and has not had a materially adverse effect on the Bank.

In addition to providing traditional banking services, the Company provides investment management and private banking services through First Advisors, which is an operating division of the Bank. First Advisors is focused on taking advantage of opportunities created as the larger banks have altered their personal service commitment to clients not meeting established account criteria. First Advisors is able to offer a comprehensive array of private banking, financial planning, investment management and trust services to individuals, businesses, non-profit organizations and municipalities of varying asset size, and to provide the highest level of personal service. The staff includes investment and trust professionals with extensive experience.

The financial services landscape has changed considerably over the past five years in the Bank's primary market area. Two large out-of-state banks have continued to experience local change as a result of mergers and acquisitions at the regional and national level. Credit unions have continued to expand their membership and the scope of banking services offered. Non-banking entities such as brokerage houses, mortgage companies and insurance companies are offering very competitive products. Many of these entities and institutions have resources substantially greater than those available to the Bank and are not subject to the same regulatory restrictions as the Company and the Bank.

In November of 1999, Congress adopted the Gramm-Leach-Bliley Financial Modernization Act ( GLBA ). This legislation breaks down the firewalls separating related business in order to create more competition and a level playing field. The Act eliminated depression-era restrictions which separate the business of banking from the business of insurance and securities underwriting, and also resulted in modifications to protect consumers and streamline regulation. While the Company views this legislation as an opportunity to offer a more comprehensive range of financial products and services, at the same time it has provided additional competition in the marketplace.

The Company believes that there will continue to be a need for a bank in the Bank's primary market area with local management having decision-making power and emphasizing loans to small and medium-sized businesses and to individuals. The Bank has concentrated on extending business loans to such customers in the Bank's primary market area and to extending investment and trust services to clients with accounts of all sizes. The Bank's Management also makes decisions based upon, among other things, the knowledge of the Bank's employees regarding the communities and customers in the Bank's primary market area. The individuals employed by the Bank, to a large extent, reside near the branch offices and thus are generally familiar with their communities and customers. This is important in local decision-making and allows the Bank to respond to customer questions and concerns on a timely basis and fosters quality customer service.

The Bank has worked and will continue to work to position itself to be competitive in its market area. The Bank's ability to make decisions close to the marketplace, Management's commitment to providing quality banking products, the caliber of the professional staff, and the community involvement of the Bank's employees are all factors affecting the Bank's ability to be competitive. If the Company and the Bank are unable to compete successfully, however, the business and operations could be adversely affected.

**Supervision and Regulation**

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The Company is a financial holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the Act ), and section 225.82 of Regulation Y issued by the Board of Governors of the Federal Reserve

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System (the Federal Reserve Board), and is required to file with the Federal Reserve Board an annual report and other information required pursuant to the Act. The Company is subject to examination by the Federal Reserve Board.

The Act requires the prior approval of the Federal Reserve Board for a financial holding company to acquire or hold more than a 5% voting interest in any bank, and controls interstate banking activities. The Act restricts First National Lincoln Corporation's non-banking activities to those which are determined by the Federal Reserve Board to be closely related to banking. The Act does not place territorial restrictions on the activities of non-bank subsidiaries of financial holding companies. The majority of the Company's cash revenues are generally derived from dividends paid to the Company by the Bank. These dividends are subject to various legal and regulatory restrictions which are summarized in Note 19 to the accompanying financial statements.

The Bank is regulated by the Office of the Comptroller of the Currency (OCC) and is subject to the provisions of the National Bank Act. As a result, it must meet certain liquidity and capital requirements, which are discussed in the following sections.

### ***Customer Information Security***

The FDIC, the OCC and other bank regulatory agencies have published guidelines establishing standards for safeguarding nonpublic personal information about customers that implement provisions of the GLBA (the Guidelines). Among other things, the Guidelines require each financial institution, under the supervision and ongoing oversight of its Board of Directors or an appropriate committee thereof, to develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against any anticipated threats or hazards to the security or integrity of such information, and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.

### ***Privacy***

The FDIC, the OCC and other regulatory agencies have published privacy rules pursuant to provisions of the GLBA (Privacy Rules). The Privacy Rules, which govern the treatment of nonpublic personal information about consumers by financial institutions, require a financial institution to provide notice to customers (and other consumers in some circumstances) about its privacy policies and practices, describe the conditions under which a financial institution may disclose nonpublic personal information to nonaffiliated third parties, and provide a method for consumers to prevent a financial institution from disclosing that information to most nonaffiliated third parties by opting-out of that disclosure, subject to certain exceptions.

### ***USA Patriot Act***

The USA Patriot Act of 2001, designed to deny terrorists and others the ability to obtain anonymous access to the U.S. financial system, has significant implications for depository institutions, broker-dealers and other businesses involved in the transfer of money. The USA Patriot Act, together with the implementing regulations of various federal regulatory agencies, have caused financial institutions, including the Bank, to adopt and implement additional or amend existing policies and procedures with respect to, among other things, anti-money laundering compliance, suspicious activity and currency transaction reporting, customer identity verification and customer risk analysis. The statute and its underlying regulations also permit information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the Federal Reserve Board (and other federal banking agencies) to evaluate the effectiveness of an applicant in combating money laundering activities when considering applications filed under Section 3 of the BHC Act or under the Bank Merger Act.

### ***The Sarbanes-Oxley Act***

The Sarbanes-Oxley Act of 2002 (SOX) implements a broad range of corporate governance and accounting measures for public companies (including publicly-held bank holding companies such as the Company) designed to promote honesty and transparency in corporate America and better protect investors from the type of corporate wrongdoings that occurred at Enron and WorldCom, among other companies. SOX principal provisions, many of which have been implemented through regulations released and policies and rules adopted by the securities exchanges in 2003 and 2004, provide for and include, among other things:

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The creation of an independent accounting oversight board;

Auditor independence provisions which restrict non-audit services that accountants may provide to their audit clients;

Additional corporate governance and responsibility measures, including the requirement that the chief executive officer and chief financial officer of a public company certify financial statements;

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The forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve-month period following initial publication of any financial statements that later require restatement;

An increase in the oversight of, and enhancement of certain requirements relating to, audit committees of public companies and how they interact with the public company's independent auditors;

Requirements that audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer;

Requirements that companies disclose whether at least one member of the audit committee is a financial expert (as such term is defined by the SEC) and if not, why not;

Expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods;

A prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions, such as the Bank, on nonpreferential terms and in compliance with other bank regulatory requirements;

Disclosure of a code of ethics and filing a Form 8-K in the event of a change or waiver of such code; and

A range of enhanced penalties for fraud and other violations.

The Company complies with, the provisions of SOX and its underlying regulations. Management believes that such compliance efforts have strengthened the Company's overall corporate governance structure and does not expect that such compliance has to date, or will in the future have, a material impact on the Company's results of operations or financial condition.

### ***Capital Requirements and FDICIA***

The OCC has established guidelines with respect to the maintenance of appropriate levels of capital by FDIC-insured banks. The Federal Reserve Board has established substantially identical guidelines with respect to the maintenance of appropriate levels of capital, on a consolidated basis, by bank holding companies. If a banking organization's capital levels fall below the minimum requirements established by such guidelines, a bank or bank holding company will be expected to develop and implement a plan acceptable to the FDIC or the Federal Reserve Board, respectively, to achieve adequate levels of capital within a reasonable period, and may be denied approval to acquire or establish additional banks or non-bank businesses, merge with other institutions or open branch facilities until such capital levels are achieved. Federal legislation requires federal bank regulators to take prompt corrective action with respect to insured depository institutions that fail to satisfy minimum capital requirements and imposes significant restrictions on such institutions. See Prompt Corrective Action below.

### ***Leverage Capital Ratio***

The regulations of the OCC require national banks to maintain a minimum Leverage Capital Ratio or Tier 1 Capital (as defined in the Risk-Based Capital Guidelines discussed in the following paragraphs) to Total Assets of 4.0%. Any bank experiencing or anticipating significant growth is expected to maintain capital well above the minimum levels. The Federal Reserve Board's guidelines impose substantially similar leverage capital requirements on bank holding companies on a consolidated basis.

### ***Risk-Based Capital Requirements***

The regulations of the OCC also require national banks to maintain minimum capital levels measured as a percentage of such banks risk-adjusted assets. A bank's qualifying total capital (Total Capital) for this purpose may include two components: Core (Tier 1) Capital and Supplementary (Tier 2) Capital. Core Capital consists primarily of common stockholders' equity, which generally includes common stock, related surplus and retained earnings, certain non-cumulative perpetual preferred stock and related surplus, and minority interests in the equity accounts of consolidated subsidiaries, and (subject to certain limitations) mortgage servicing rights and purchased credit card relationships, less all other intangible assets (primarily goodwill). Supplementary Capital elements include, subject to certain limitations, a portion of the allowance for losses on loans and leases, perpetual preferred stock that does not qualify for inclusion in Tier 1 capital, long-term preferred stock with an original maturity of at least 20 years and related surplus, certain forms of perpetual debt and mandatory convertible securities, and certain forms of subordinated debt and intermediate-term preferred stock.

The risk-based capital rules assign a bank's balance sheet assets and the credit equivalent amounts of the bank's off-balance sheet obligations to one of four risk categories, weighted at 0%, 20%, 50% or 100%, respectively. Applying these risk-weights to each category of the bank's balance sheet assets and to the credit equivalent amounts of the bank's off-balance sheet obligations and summing the totals results in the amount of the bank's total Risk-Adjusted Assets for purposes of the risk-based capital requirements. Risk-Adjusted Assets can either exceed or be less than reported balance sheet assets, depending on the risk profile of the banking organization. Risk-Adjusted Assets for institutions such as the Bank

will generally be less than reported balance sheet assets because its retail banking activities include proportionally

more residential mortgage loans and certain investment securities with a lower risk weighting and relatively smaller off-balance sheet obligations.

The risk-based capital regulations require all banks to maintain a minimum ratio of Total Capital to Risk-Adjusted Assets of 8.0%, of which at least one-half (4.0%) must be Core (Tier 1) Capital. For the purpose of calculating these ratios: (i) a banking organization's Supplementary Capital eligible for inclusion in Total Capital is limited to no more than 100% of Core Capital; and (ii) the aggregate amount of certain types of Supplementary Capital eligible for inclusion in Total Capital is further limited. For example, the regulations limit the portion of the allowance for loan losses eligible for inclusion in Total Capital to 1.25% of Risk-Adjusted Assets. The Federal Reserve Board has established substantially identical risk-based capital requirements, which are applied to bank holding companies on a consolidated basis. The risk-based capital regulations explicitly provide for the consideration of interest rate risk in the overall evaluation of a bank's capital adequacy to ensure that banks effectively measure and monitor their interest rate risk, and that they maintain capital adequate for that risk. A bank deemed by its federal banking regulator to have excessive interest rate risk exposure may be required to maintain additional capital (that is, capital in excess of the minimum ratios discussed above). The Bank believes, based on its level of interest rate risk exposure, that this provision will not have a material adverse effect on it.

On December 31, 2007, the Company's consolidated Total and Tier 1 Risk-Based Capital Ratios were 11.07% and 10.21%, respectively, and its Leverage Capital Ratio was 7.22%. Based on the above figures and accompanying discussion, the Company exceeds all regulatory capital requirements and is considered well capitalized.

#### ***Prompt Corrective Action.***

The Federal Deposit Insurance Corporation Improvement Act of 1991 ( FDICIA ) requires, among other things, that the federal banking regulators take prompt corrective action with respect to, and imposes significant restrictions on, any bank that fails to satisfy its applicable minimum capital requirements. FDICIA establishes five capital categories consisting of well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under applicable regulations, a bank that has a Total Risk-Based Capital Ratio of 10.0% or greater, a Tier 1 Risk-Based Capital Ratio of 6.0% or greater and a Leverage Capital Ratio of 5.0% or greater, and is not subject to any written agreement, order, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measure is deemed to be well capitalized. A bank that has a Total Risk-Based Capital Ratio of 8.0% or greater, a Tier 1 Risk-Based Capital Ratio of 4.0% or greater and a Leverage Capital Ratio of 4.0% (or 3% for banks with the highest regulatory examination rating that are not experiencing or anticipating significant growth or expansion) or greater and does not meet the definition of a well capitalized bank is considered to be adequately capitalized. A bank that has a Total Risk-Based Capital Ratio of less than 8.0% or has a Tier 1 Risk-Based Capital Ratio that is less than 4.0%, except as noted above, a Leverage Capital Ratio of less than 4.0% is considered undercapitalized. A bank that has a Total Risk-Based Capital Ratio of less than 6.0%, or a Tier 1 Risk-Based Capital Ratio that is less than 3.0% or a Leverage Capital Ratio that is less than 3.0% is considered to be significantly undercapitalized, and a bank that has a ratio of tangible equity to total assets equal to or less than 2% is deemed to be critically undercapitalized. A bank may be deemed to be in a capital category lower than is indicated by its actual capital position if it is determined to be in an unsafe or unsound condition or receives an unsatisfactory examination rating. FDICIA generally prohibits a bank from making capital distributions (including payment of dividends) or paying management fees to controlling stockholders or their affiliates if, after such payment, the bank would be undercapitalized.

Under FDICIA and the applicable implementing regulations, an undercapitalized bank will be (i) subject to increased monitoring by its primary federal banking regulator; (ii) required to submit to its primary federal banking regulator an acceptable capital restoration plan (guaranteed, subject to certain limits, by the bank's holding company) within 45 days of being classified as undercapitalized; (iii) subject to strict asset growth limitations; and (iv) required to obtain prior regulatory approval for certain acquisitions, transactions not in the ordinary course of business, and entries into new lines of business. In addition to the foregoing, the primary federal banking regulator may issue a prompt corrective action directive to any undercapitalized institution. Such a directive may (i) require sale or re-capitalization of the bank, (ii) impose additional restrictions on transactions between the bank and its affiliates, (iii) limit interest rates paid by the bank on deposits, (iv) limit asset growth and other activities, (v) require divestiture of subsidiaries, (vi) require replacement of directors and officers, and (vii) restrict capital distributions by the bank's parent holding company. In addition to the foregoing, a significantly undercapitalized institution may not award bonuses or increases in compensation to its senior executive officers until it has submitted an acceptable capital restoration plan and received approval from its primary federal banking regulator.

Not later than 90 days after an institution becomes critically undercapitalized, the primary federal banking regulator for the institution must appoint a receiver or, with the concurrence of the FDIC, a conservator, unless the agency, with the concurrence of the FDIC, determines that the purpose of the prompt corrective action provisions would be better served by another course of action. FDICIA requires that any alternative determination be documented and reassessed



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on a periodic basis. Notwithstanding the foregoing, a receiver must be appointed after 270 days unless the appropriate federal banking agency and the FDIC certify that the institution is viable and not expected to fail.

### ***Deposit Insurance Assessments.***

The Bank's deposits are insured by the Bank Insurance Fund of the FDIC to the legal maximum of \$100,000 generally (\$250,000 for retirement accounts) for each insured depositor. The Federal Deposit Insurance Act, as amended by the Federal Deposit Insurance Reform Act of 2005, provides that the FDIC shall set deposit insurance assessment rates. In 2006, the former Bank Insurance Fund merged with the Savings Association Insurance Fund to create the Deposit Insurance Fund, or DIF. The Act eliminated the requirement that the FDIC set deposit insurance assessment rates on a semi-annual basis at a level sufficient to increase the ratio of BIF reserves to BIF-insured deposits to at least 1.25%. Under the Act, the FDIC annually sets the designated reserve ratio (DRR) of DIF reserves to DIF-insured deposits between 1.15% and 1.50%, subject to public comment, based on appropriate considerations including risk of losses, economic conditions such that the ratio would increase during favorable economic conditions and decrease during less favorable conditions, thus avoiding sharp swings in assessment rates. For 2007, the FDIC set the DRR at 1.25%. Although current assessment levels are low, DIF insurance assessments may be increased in the future if necessary to maintain DIF reserves at the level determined by the FDIC.

### ***Brokered Deposits and Pass-Through Deposit Insurance Limitations.***

Under FDICIA, a bank cannot accept brokered deposits unless it either (i) is *Well Capitalized* or (ii) is *Adequately Capitalized* and has received a written waiver from its primary federal banking regulator. For this purpose, *Well Capitalized* and *Adequately Capitalized* have the same definitions as in the Prompt Corrective Action regulations. See *Prompt Corrective Action* above. Banks that are not in the *Well Capitalized* category are subject to certain limits on the rates of interest they may offer on any deposits (whether or not obtained through a third-party deposit broker). Pass-through insurance coverage is not available in banks that do not satisfy the requirements for acceptance of brokered deposits for deposits of certain employee benefit plans, except that pass-through insurance coverage will be provided for employee benefit plan deposits in institutions which at the time of acceptance of the deposit meet all applicable regulatory capital requirements and send written notice to their depositors that their funds are eligible for pass-through deposit insurance. The Bank currently accepts brokered deposits.

### ***Real Estate Lending Standards.***

FDICIA requires the federal bank regulatory agencies to adopt uniform real estate lending standards. The FDIC and the OCC have adopted regulations which establish supervisory limitations on Loan-to-Value (LTV) ratios in real estate loans by FDIC-insured banks, including national banks. The regulations require banks to establish LTV ratio limitations within or below the prescribed uniform range of supervisory limits.

### ***Standards for Safety and Soundness.***

Pursuant to FDICIA the federal bank regulatory agencies have prescribed, by regulation, standards and guidelines for all insured depository institutions and depository institution holding companies relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; (v) asset growth; and (vi) compensation, fees and benefits. The compensation standards prohibit employment contracts, compensation or benefit arrangements, stock option plans, fee arrangements or other compensatory arrangements that would provide excessive compensation, fees or benefits, or that could lead to material financial loss. In addition, the federal bank regulatory agencies are required by FDICIA to prescribe standards specifying: (i) maximum classified assets to capital ratios; (ii) minimum earnings sufficient to absorb losses without impairing capital; and (iii) to the extent feasible, a minimum ratio of market value to book value for publicly-traded shares of depository institutions and depository institution holding companies.

### ***Consumer Protection Provisions.***

FDICIA also includes provisions requiring advance notice to regulators and customers for any proposed branch closing and authorizing (subject to future appropriation of the necessary funds) reduced insurance assessments for institutions offering lifeline banking accounts or engaged in lending in distressed communities. FDICIA also includes provisions requiring depository institutions to make additional and uniform disclosures

to depositors with respect to the rates of interest, fees and other terms applicable to consumer deposit accounts.

***FDIC Waiver of Certain Regulatory Requirements.***

The FDIC issued a rule, effective on September 22, 2003, that includes a waiver provision which grants the FDIC Board of Directors extremely broad discretionary authority to waive FDIC regulatory provisions that are not specifically mandated by statute or by a separate regulation.

***Impact of Monetary Policy***

The monetary policies of regulatory authorities, including the Federal Reserve Board, have a significant effect on the operating results of banks and bank holding companies. Through open market securities transactions and changes in its discount rate and reserve requirements, the Board of Governors exerts considerable influence over the cost and availability of funds for lending and investment. The nature of future monetary policies and the effect of such policies on the future business and earnings of the Company and the Bank cannot be predicted. See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, regarding the Bank's net interest margin and the effect of interest-rate volatility on future earnings.

***Employees***

At December 31, 2007, the Company had 211 employees and full-time equivalency of 207 employees. The Company enjoys good relations with its employees. A variety of employee benefits, including health, group life and disability income, a defined contribution retirement plan, and an incentive bonus plan, are available to qualifying officers and employees.

***Company Website***

The Company maintains a website at [www.fnlc.com](http://www.fnlc.com) where it makes available, free of charge, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as well as all Section 16 reports on Forms 3, 4, and 5, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. The Company's reports filed with, or furnished to, the SEC are also available at the SEC's website at [www.sec.gov](http://www.sec.gov). Information contained on the Company's website does not constitute a part of this report.

**ITEM 1A. Risk Factors**

The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us and our business. If any of these risks were to occur, our business, financial condition or results of operations could be materially and adversely affected.

***Competition***

We face significant competition for banking services in coastal Maine, the primary market in which we operate. Competition in the local banking industry may limit our ability to attract and retain customers. We may face competition now and in the future from the following: other banking institutions, including larger regional and national commercial banking organizations; savings banks; credit unions; other financial institutions; and non-bank financial services companies.

In particular, our competitors include major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits, which enable them to serve the credit needs of larger customers. We also face competition from out-of-state financial intermediaries that have opened loan production offices or solicit deposits through the internet. If we are unable to attract and retain banking customers we may be unable to continue our loan growth and level of deposits and our results of operations and financial condition may otherwise be negatively affected.

In the past, we have expanded our operations into non-banking activities such as asset management and wealth advisory services. We may have difficulty competing with more established providers of these products and services due to the intense competition in these service sectors. In addition, we may be unable to attract and retain non-banking customers due to our lack of market and product knowledge or other industry specific matters or an inability to attract and retain qualified, experienced employees. Our failure to attract and retain customers with respect to these non-banking activities could negatively impact our future earnings.

***Interest Rate Risk***

Our main source of income is net interest income, which is equal to the difference between the interest income received on loans, investment securities and other interest-bearing assets and the interest expense incurred in connection with deposits, borrowings and other interest-bearing liabilities. As a result, our net interest income can be affected by changes in market interest rates. These rates are highly sensitive to many factors beyond our control, including general economic conditions, both domestic and foreign, and the monetary and fiscal policies of various governmental and



regulatory authorities. We have asset and liability management policies that attempt to minimize the potential adverse effects of changes in interest rates on our net interest income, primarily by altering the mix and maturity of loans, investments and funding sources. However, even with these policies in place, we cannot provide assurance that changes in interest rates will not negatively impact our operating results. For a further discussion on the Company's exposure to interest rate risk, see Item 7A: Quantitative and Qualitative Disclosures about Market Risk.

Furthermore, our banking business is affected not only by general economic conditions, but also by the monetary policies of the Federal Reserve Board. Changes in monetary or legislative policies may affect the interest rates we must offer to attract deposits and the interest rates we can charge on our loans, as well as the manner in which we offer deposits and make loans. These monetary policies have had, and are expected to continue to have, significant effects on the operating results of depository institutions, including the Bank. Increases in interest rates also may reduce the demand for loans and, as a result, the amount of loan and commitment fees the Bank receives.

### ***Credit Risk***

A number of factors can impact the ability of borrowers to repay their current loan obligations, which could not only result in increased loan defaults, foreclosures and write-offs, but also necessitate further increases to our allowance for loan losses. If customers default on the repayment of their loans, our profitability could be adversely affected. A borrower's default on its obligations under one or more of our loans may result in lost principal and interest income and increased operating expenses as a result of the allocation of management time and resources to the collection and work-out of the loans. If collection efforts are unsuccessful or acceptable workout arrangements cannot be reached, we may have to write-off the loans in whole or in part. Although we may acquire any real estate or other assets that secure the defaulted loans through foreclosure or other similar remedies, the amount owed under the defaulted loans may exceed the value of the assets acquired.

Management periodically makes a determination of our allowance for loan losses based on available information, including the quality of our loan portfolio, economic conditions, the value of the underlying collateral and the level of our non-accruing loans. If assumptions prove to be incorrect, our allowance may not be sufficient. Increases in this allowance will result in an expense for the period. If, as a result of general economic conditions or an increase in non-performing loans, Management determines that an increase in our allowance for loan losses is necessary, we may incur additional expenses.

As an integral part of their examination process, bank regulatory agencies periodically review our allowance for loan losses and the value we attribute to real estate acquired through foreclosure or other similar remedies. These regulatory agencies may require us to adjust our determination of the value of these items. These adjustments could negatively impact our results of operations or financial condition.

Because we serve primarily individuals and smaller businesses located in coastal Maine, the ability of customers to repay their loans is impacted by the economic conditions in this area. In addition, our ability to continue to originate loans may be impaired by adverse changes in local and regional economic conditions. These events also could have an adverse effect on the value of our collateral and our financial condition.

In the course of business, we may acquire, through foreclosure, properties securing loans that are in default. In commercial real estate lending, there is a risk that hazardous substances could be discovered on these properties. In this event, we might be required to remove these substances from the affected properties at our sole cost and expense. The cost of this removal could exceed the value of the affected properties. We may not have adequate remedies against the prior owners or other responsible parties and could find it difficult or impossible to sell the affected properties. The occurrence of one or more of these events could adversely affect our financial condition or operating results.

### ***Liquidity and Funding***

We have traditionally obtained funds principally through deposits and borrowings. As a general matter, deposits are a lower cost source of funds than borrowings, because interest rates paid for deposits are typically less than interest rates charged for borrowings. If, as a result of competitive pressures, market interest rates, general economic conditions or other events, the balance of our deposits decreases relative to our overall banking operations, we may have to rely more heavily on borrowings as a source of funds in the future. Such an increased reliance on borrowings could have a negative impact on our results of operations or financial condition.

In addition, fluctuations in interest rates may result in disintermediation, which is the flow of funds away from depository institutions into direct investments that pay higher rates of return, and may affect the value of our investment securities and other interest-earning assets.

### ***Regulation***

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Bank holding companies and nationally chartered banks operate in a highly regulated environment and are subject to supervision and examination by various regulatory agencies. The Company is subject to the Bank Holding Company Act of 1956, as amended, and to regulation and supervision by the Federal Reserve Board, or FRB. The Bank is subject to regulation and supervision by the Office of the Comptroller of the Currency, or the OCC. The cost of compliance

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with regulatory requirements may adversely affect our results of operations or financial condition. Federal and state laws and regulations govern numerous matters including: changes in the ownership or control of banks and bank holding companies; maintenance of adequate capital and the financial condition of a financial institution; permissible types, amounts and terms of extensions of credit and investments; permissible non-banking activities; the level of reserves against deposits; and restrictions on dividend payments.

The OCC possesses cease and desist powers to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulation, and the Federal Reserve Board possesses similar powers with respect to bank holding companies. These and other restrictions limit the manner in which we may conduct our business and obtain financing.

Under regulatory capital adequacy guidelines and other regulatory requirements, we must meet guidelines that include quantitative measures of assets, liabilities, and certain off-balance sheet items, subject to qualitative judgments by regulators about components, risk weightings and other factors. If we fail to meet these minimum capital guidelines and other regulatory requirements, our financial condition would be materially and adversely affected. Our failure to maintain the status of well capitalized under our regulatory framework could affect the confidence of our customers in us, thus compromising our competitive position. In addition, failure to maintain the status of well capitalized under our regulatory framework or well managed under regulatory examination procedures could compromise our status as a bank holding company and related eligibility for a streamlined review process for acquisition proposals.

### *Electronic Systems*

We rely heavily on communications and information systems to conduct our business. Any failure or interruptions or breach in security of these systems could result in disruptions to our customer relationship management, general ledger, deposits, servicing or loan origination systems. The occurrence of any failures or interruptions could result in a loss of customer business and have a material adverse effect on our results of operations and financial condition.

### **ITEM 1B. Unresolved Staff Comments**

None

### **ITEM 2. Properties**

The principal office of the Company and the Bank is located in Damariscotta, Maine. The Bank operates 14 full-service banking offices in four counties in the Mid-Coast and Down East regions of Maine:

<b>Lincoln County</b>	<b>Knox County</b>	<b>Hancock County</b>	<b>Washington County</b>
Boothbay Harbor	Camden	Bar Harbor	Eastport
Damariscotta	Rockland	Blue Hill	Calais
Waldoboro	Rockport	Ellsworth	
Wiscasset		Northeast Harbor	
		Southwest Harbor	

First Advisors, the investment management and trust division of the Bank, operates from two offices in Bar Harbor, and Damariscotta. The Bank also maintains an Operations Center in Damariscotta.

The Company owns all of its facilities except for the land on which the Ellsworth branch is located, and except for the Camden, Calais, Northeast Harbor, and Southwest Harbor drive-up facilities, for which the Bank entered into long-term leases. Management believes that the Bank's current facilities are suitable and adequate in light of its current needs and its anticipated needs over the near term.

**ITEM 3. Legal Proceedings**

There are no material pending legal proceedings to which the Company or the Bank is a party or to which any of its property is subject, other than routine litigation incidental to the business of the Bank. None of these proceedings is expected to have a material effect on the financial condition of the Company or of the Bank.

**ITEM 4. Submission of Matters to a Vote of Security Holders**

None

**ITEM 5. Market for Registrant's Common Equity and Related Shareholder Matters**

The common stock of First National Lincoln Corporation (ticker symbol FNLC) trades on the NASDAQ National Market System. The following table reflects the high and low prices of actual sales in each quarter of 2007 and 2006. Such quotations do not reflect retail mark-ups, mark-downs or brokers' commissions.

	<u>2007</u>		<u>2006</u>	
	High	Low	High	Low
1st Quarter	<b>\$16.84</b>	<b>\$15.64</b>	\$17.89	\$17.10
2nd Quarter	<b>17.00</b>	<b>15.50</b>	17.72	16.45
3rd Quarter	<b>17.50</b>	<b>13.60</b>	17.99	16.62
4th Quarter	<b>15.95</b>	<b>14.20</b>	17.40	16.39

The last transaction of the Company's stock on the NASDAQ National Market System during 2007 was on December 31 at \$14.64 per share. There are no warrants outstanding with respect to the Company's common stock, and the Company has no securities outstanding which are convertible into common equity.

The table below sets forth the cash dividends declared in the last two fiscal years:

<b>Date Declared</b>	<b>Amount Per Share</b>	<b>Date Payable</b>
March 16, 2006	\$0.145	April 28, 2006
June 15, 2006	\$0.150	July 31, 2006
September 21, 2006	\$0.155	October 31, 2006
December 21, 2006	\$0.160	January 31, 2007
March 22, 2007	\$0.165	April 30, 2007
June 21, 2007	\$0.170	July 31, 2007
September 19, 2007	\$0.175	October 31, 2007
December 20, 2007	\$0.180	January 31, 2008

The ability of the Company to pay cash dividends depends on receipt of dividends from the Bank. Dividends may be declared by the Bank out of its net profits as the directors deem appropriate, subject to the limitation that the total of all dividends declared by the Bank in any calendar year may not exceed the total of its net profits of that year plus retained net profits of the preceding two years. Based upon this restriction, the amount available for dividends in 2008 will be that year's net income plus \$9.9 million. The payment of dividends from the Bank to the Company may be additionally restricted if the payment of such dividends resulted in the Bank failing to meet regulatory capital requirements.

The Bank is also required to maintain minimum amounts of capital-to-total-risk-weighted-assets, as defined by banking regulators. At December 31, 2007, the Bank was required to have minimum Tier 1 and Tier 2 risk-based capital ratios of 4.00% and 8.00%, respectively. The Bank's actual ratios were 10.13% and 10.99%, respectively, as of December 31, 2007.

*Unregistered Sales of Equity Securities*

The Company issues shares to the Bank's 401k Investment and Savings Plan pursuant to an exemption from registration under the Securities Act of 1933, as amended (the "Securities Act"), contained in Section 3(a)(11) thereof and Rule 147 promulgated thereunder. Sales in 2007 are presented in the following table:

<b>Month</b>	<b>Shares</b>	<b>Average Price</b>	<b>Proceeds</b>
January 2007	1,191	16.61	19,785
February 2007	1,381	16.54	22,848
March 2007	776	16.19	12,555
April 2007	957	16.02	15,327
May 2007	484	16.13	7,812
June 2007	353	16.18	5,705
July 2007	320	16.48	5,268
August 2007	535	15.17	8,115
September 2007	319	14.95	4,773
October 2007	317	15.25	4,837
November 2007	243	15.15	3,674
December 2007	186	14.72	2,738
<b>Total</b>	<b>7,061</b>	<b>\$16.06</b>	<b>\$113,000</b>

*Repurchase of Shares and Use of Proceeds*

On July 21, 2006, the Company announced that its Board of Directors had authorized a program for the repurchase of up to 250,000 shares of the Company's common stock or approximately 2.5% of the outstanding shares. This program ended in August of 2007, with 126,334 shares repurchased under the program at an average price of \$16.93 and at a total cost of \$2.1 million.

On August 16, 2007, the Company announced that its Board of Directors had authorized a new program for the repurchase of up to 300,000 shares of the Company's common stock or approximately 3.1% of the outstanding shares. The Company expects such repurchases to be effected from time to time, in the open market, in private transactions or otherwise, during a period of up to 24 months. The amount and timing of shares to be purchased will be subject to market conditions and will be based on several factors, including the price of the Company's stock and the level of stock issuances under the Company's employee stock plans. No assurance can be given as to the specific timing of the share repurchases or as to whether and to what extent the share repurchase will be consummated. As of December 31, 2007, the Company had repurchased 90,564 shares under the new repurchase plan at an average price of \$15.17 and at a total cost of \$1.4 million.

The following table details repurchases under both programs for the year ended December 31, 2007:

<b>Month</b>	<b>Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program</b>
January 2007	5,210	16.49	5,210
February 2007	808	16.50	808
March 2007	650	16.31	650
April 2007	91	15.97	91
May 2007	11,803	16.13	11,803
June 2007	735	15.66	735
July 2007	-	-	-
August 2007	3,859	15.73	3,859
September 2007	1	15.08	1
October 2007	1	15.35	1
November 2007	76,655	15.21	76,655
December 2007	10,047	14.65	10,047

<b>Total</b>	<b>109,860</b>	<b>15.35</b>	<b>109,860</b>
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**ITEM 6. Selected Financial Data***Dollars in thousands,*Years ended December 31.*except for per share amounts***Summary of Operations**

	<b>2007</b>	2006	2005	2004	2003
Interest Income	<b>\$71,721</b>	\$ 64,204	\$ 50,431	\$ 30,528	\$ 27,540
Interest Expense	<b>39,885</b>	33,589	18,848	9,024	9,796
Net Interest Income	<b>31,836</b>	30,615	31,583	21,504	17,744
Provision for Loan Losses	<b>1,432</b>	1,325	200	880	907
Non-Interest Income	<b>10,145</b>	10,306	9,034	4,667	5,148
Non-Interest Expense	<b>22,183</b>	22,439	22,518	13,371	11,600
Net Income	<b>13,101</b>	12,295	12,843	8,509	7,427

**Per Common Share Data**

Net Income					
Basic	<b>\$ 1.34</b>	\$ 1.25	\$ 1.32	\$ 1.16	\$ 1.02
Diluted	<b>1.34</b>	1.25	1.30	1.14	1.00
Cash Dividends (Declared)	<b>0.69</b>	0.61	0.53	0.45	0.38
Book Value	<b>11.58</b>	10.98	10.52	7.18	6.57
Market Value	<b>14.64</b>	16.72	17.58	17.45	16.63

**Financial Ratios**

Return on Average Equity	<b>11.89%</b>	11.63%	12.98%	17.10%	16.39%
Return on Average Tangible Equity	<b>15.89</b>	15.75	17.81	17.36	16.39
Return on Average Assets	<b>1.13</b>	1.14	1.36	1.41	1.41
Average Equity to Average Assets	<b>9.53</b>	9.81	10.44	8.22	8.58
Average Tangible Equity to Average Assets	<b>7.13</b>	7.24	7.61	8.27	8.58
Net Interest Margin (Tax-Equivalent)	<b>3.13</b>	3.24	3.84	3.94	3.73
Dividend Payout Ratio (Declared)	<b>51.49</b>	48.80	40.15	38.62	37.13
Allowance for Loan Losses/Total Loans	<b>0.74</b>	0.76	0.79	0.99	1.05
Non-Performing Loans to Total Loans	<b>0.31</b>	0.42	0.40	0.34	0.39
Non-Performing Assets to Total Assets	<b>0.23</b>	0.32	0.30	0.25	0.29
Efficiency Ratio (Tax-equivalent)	<b>50.16</b>	52.12	52.89	48.78	48.32

**At Year End**

Total Assets	<b>\$1,223,250</b>	\$1,104,869	\$1,042,209	\$ 634,238	\$ 568,812
Total Loans	<b>920,164</b>	838,145	772,338	478,332	398,895
Total Investment Securities	<b>221,815</b>	180,549	183,981	126,827	136,689
Total Deposits	<b>781,280</b>	805,235	713,964	369,844	359,077
Total Borrowings	<b>316,719</b>	179,862	215,189	207,206	157,822
Total Shareholders' Equity	<b>112,668</b>	107,327	103,452	52,815	47,718

Market price per common share of stock during 2007

High  
Low  
\$17.50  
\$13.60



**ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

First National Lincoln Corporation (the Company) was incorporated in the State of Maine on January 15, 1985, and is the parent holding company of The First, N.A. (the Bank). The Company generates almost all of its revenues from the Bank, which was chartered as a national bank under the laws of the United States on May 30, 1864. The Bank, which has fourteen offices along coastal Maine, emphasizes personal service to the communities it serves, concentrating primarily on small businesses and individuals.

The Bank offers a wide variety of traditional banking services and derives the majority of its revenues from net interest income—the spread between what it earns on loans and investments and what it pays for deposits and borrowed funds. While net interest income typically increases as earning assets grow, the spread can vary up or down depending on the level and direction of movements in interest rates. Management believes the Bank has modest exposure to changes in interest rates, as discussed in Interest Rate Risk Management elsewhere in Management's Discussion. In addition, the banking business in the Bank's market area historically has been seasonal with lower deposits in the winter and spring and higher deposits in the summer and fall. This seasonal swing is fairly predictable and has not had a materially adverse effect on the Bank.

Non-interest income is the Bank's secondary source of revenue and includes fees and service charges on deposit accounts, fees for processing merchant credit card receipts, income from the sale and servicing of mortgage loans, and income from investment management and private banking services through First Advisors, a division of the Bank.

***Critical Accounting Policies***

Management's discussion and analysis of the Company's financial condition and results of operations is based on the consolidated financial statements which are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of such financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, Management evaluates its estimates, including those related to the allowance for loan losses, the valuation of mortgage servicing rights, goodwill and the valuation of stock options. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets that are not readily apparent from other sources. Actual results are likely to differ from the amounts derived from Management's estimates and assumptions, and such differences could be substantial.

The allowance for loan losses is a critical accounting policy that requires the most significant estimates and assumptions used in the preparation of the consolidated financial statements. The allowance for loan losses is based on Management's evaluation of the level of the allowance required in relation to the estimated loss exposure in the loan portfolio. Management believes the allowance for loan losses is a significant estimate and therefore regularly evaluates it for adequacy by taking into consideration factors such as prior loan loss experience, the character and size of the loan portfolio, business and economic conditions and Management's estimation of probable losses. The use of different estimates or assumptions could produce different provisions for loan losses. The allowance for loan losses is discussed in more detail in the Assets and Asset Quality section of this report.

The valuation of mortgage servicing rights is a critical accounting policy which requires significant estimates and assumptions. The Bank often sells mortgage loans it originates and retains the ongoing servicing of such loans, receiving a fee for these services, generally 0.25% of the outstanding balance of the loan per annum. Mortgage servicing rights are recognized when they are acquired through the sale of loans, and are reported in other assets. They are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Management uses an independent firm which specializes in the valuation of mortgage servicing rights to determine the fair value which is recorded on the balance sheet. This includes an evaluation for impairment based upon the fair value of the rights, which can vary depending upon current interest rates and prepayment expectations, as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. The use of different assumptions could produce a different valuation.

The valuation of goodwill is a critical accounting policy. Intangible assets include the excess of the purchase price over the fair value of net assets acquired (goodwill) from the acquisition of FNB Bankshares in 2005 as well as the core deposit intangible related to the same acquisition. The core deposit intangible is amortized on a straight-line basis over ten years. The straight-line basis is used because the Company does not expect significant run off in the core deposits which were acquired. The Company periodically evaluates intangible assets for impairment on the basis of whether these assets are fully recoverable from projected, undiscounted net cash flows of the acquired company.

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The value of stock options is a critical accounting policy. The Company established a shareholder-approved stock option plan in 1995, under which the Company may grant options to its employees for up to 600,000 shares of common stock. Only incentive stock options may be granted under the plan. The option price of each option grant is determined

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by the Options Committee of the Board of Directors, and in no instance shall be less than the fair market value on the date of the grant. An option's maximum term is ten years from the date of grant, with 50% of the options granted vesting two years from the date of grant and the remaining 50% vesting five years from date of grant. As of January 16, 2005, all options under this plan had been granted. The Company applies the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), Share-Based Payment, to stock-based employee compensation for fiscal years beginning on or after January 1, 2006.

### **Results of Operations**

For First National Lincoln Corporation, 2007 operating results were greatly improved over 2006. The driving force for our increase in earnings was net interest income. A primary factor for this was growth in earning assets. At the same time, the lowering of rates by the Federal Open Market Committee (FOMC) was positive for the Company. As in previous years, expense control continued to be a major factor in our performance in 2007.

### ***Net Interest Income***

Net interest income in 2007 was \$31.8 million, an increase of \$1.2 million or 4.0% from the \$30.6 million posted by the Company in 2006. The primary factor for the increase in net interest income during 2007 compared to 2006 was the \$124.6 million or 12.2% growth in earning assets in 2007, with total loans increasing \$82.0 million or 9.8% and investments increasing \$41.3 million or 22.9%. In addition, the lowering of rates by the FOMC in 2007 was positive for FNLC, resulting in lower funding costs from a restructuring of a significant portion of our wholesale funding and improved net interest margins in the third and fourth quarters.

The following tables present changes in interest income and expense attributable to changes in interest rates, volume, and rate/volume<sup>1</sup> for interest-earning assets and interest-bearing liabilities. Tax-exempt income is calculated on a tax-equivalent basis, using a 35.0% tax rate.

#### **Year ended December 31, 2007 compared to 2006**

<i>Dollars in thousands</i>	Volume	Rate	Rate/Volume <sup>1</sup>	Total
<b>Interest on earning assets</b>				
Interest-bearing deposits	\$ (64)	\$ (64)	\$ 64	\$ (64)
Investment securities	1,044	482	46	1,572
Loans held for sale	5	15	31	51
Loans	4,165	1,761	133	6,059
Total interest income	5,150	2,194	274	7,618
<b>Interest expense</b>				
Deposits	1,067	2,760	114	3,941
Borrowings	1,897	368	90	2,355
Total interest expense	2,964	3,128	204	6,296
<b>Change in net interest income</b>	<b>\$ 2,186</b>	<b>\$ (934)</b>	<b>\$ 70</b>	<b>\$ 1,322</b>

#### **Year ended December 31, 2006 compared to 2005**

<i>Dollars in thousands</i>	Volume	Rate	Rate/Volume <sup>1</sup>	Total
<b>Interest on earning assets</b>				
Interest-bearing deposits	\$ 23	\$ 10	\$ 18	\$ 51
Investment securities	1,749	109	21	1,879
Loans held for sale	(3)	4	(1)	-
Loans	6,266	5,017	730	12,013
Total interest income	8,035	5,140	768	13,943
<b>Interest expense</b>				
Deposits	2,868	7,791	1,656	12,315
Borrowings	(185)	2,705	(94)	2,426
Total interest expense	2,682	10,496	1,562	14,741

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<b>Change in net interest income</b>	\$ 5,353	\$ (5,356)	\$ (794)	\$ (798)
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<sup>1</sup> Represents the change attributable to a combination of change in rate and change in volume.

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The following table presents, for the years ended December 31, 2007, 2006, and 2005, the interest earned on or paid for each major asset and liability category, respectively, the average yield for each major asset and liability category, and the net yield between assets and liabilities. Tax-exempt income has been calculated on a tax-equivalent basis using a 35% rate. Unrecognized interest on non-accrual loans is not included in the amount presented, but the average balance of non-accrual loans is included in the denominator when calculating yields.

<i>Dollars in thousands</i>	<u>2007</u>		<u>2006</u>		<u>2005</u>	
	Amount of interest	Average Yield/Rate	Amount of interest	Average Yield/Rate	Amount of interest	Average Yield/Rate
Interest on earning assets						
Interest-bearing deposits	\$ -	0.00%	\$ 64	5.41%	\$ 13	3.00%
Investments	12,582	5.98%	11,010	5.73%	9,131	5.66%
Loans held for sale	53	8.43%	14	6.93%	14	5.63%
Loans	61,167	7.01%	55,096	6.79%	43,083	6.08%
Total interest-earning assets	73,802	6.81%	66,184	6.58%	52,241	6.00%
Interest-bearing liabilities						
Deposits	29,745	3.93%	25,804	3.55%	13,489	2.25%
Other borrowings	10,140	4.71%	7,785	4.49%	5,359	2.99%
Total interest-bearing liabilities	39,885	4.10%	33,589	3.73%	18,848	2.42%
Net interest income	\$ 33,917		\$ 32,595		\$ 33,393	
Interest rate spread		2.71%		2.85%		3.58%
Net interest margin		3.13%		3.24%		3.84%

Tax-exempt interest income amounted to \$3.9 million for the year ended December 31, 2007, \$3.7 million for the year ended December 31, 2006, and \$3.4 million for the year ended December 31, 2005. The following table presents the effect of tax-exempt income on the calculation of the net interest margin, using a 35.0% tax rate in 2007, 2006 and 2005.

<i>Dollars in thousands</i>	For the Years Ended December 31,		
	2007	2006	2005
Net interest income as presented	\$31,836	\$30,615	\$31,583
Effect of tax-exempt income	2,081	1,980	1,810
Net interest income, tax equivalent	\$33,917	\$32,595	\$33,393

### ***Non-Interest Income***

Non-interest income decreased \$0.2 million or 1.6% from \$10.3 million in 2006 to \$10.1 million in 2007. The decrease in non-interest income was due to lower investment management and fiduciary income, which decreased by 11.0%, service charges on deposit accounts, which decreased by 0.4%, and other operating income, which decreased by 0.5%.

### ***Non-Interest Expense***

Non-interest expense declined \$0.2 million or 1.1% in 2007 from \$22.4 million in 2006 to \$22.2 million in 2007. During 2007, the Company aggressively sought to control operating expense. The Company saw a decrease in furniture and equipment expense as well as in other operating expense.

### ***Provision to the Allowance for Loan Losses***

The Company's provision to the allowance for loan losses was \$1.4 million in 2007 compared to \$1.3 million in 2006. The amount of provision made during the years ending 2007 and 2006 was to maintain the allowance for loan losses at an adequate level given continued growth in our loan portfolio and our level of chargeoffs. The Company's level of chargeoffs as a percentage of loans outstanding was lower in 2007 than in

2006, remaining historically low at 0.11% of total loans.

***Net Income***

Net income for 2007 was \$13.1 million a 6.6% or \$0.8 million increase from net income of \$12.3 million that was posted in 2006. Earnings per share on a fully diluted basis were \$1.34, up \$0.09 or 7.2% from the \$1.25 reported for the year ended December 31, 2006. Higher net interest income and lower non-interest expense were the primary factors for the increase in net income.

***Key Ratios***

Return on average assets in 2007 was 1.13%, down from the 1.14% posted in 2006. Return on average tangible equity was 15.89% in 2007, compared to 15.75% in 2006 and 17.81% in 2005, while return on average equity was 11.89% in 2007, compared to 11.63% in 2006 and 12.98% in 2005. The substantial difference between return on average tangible equity and average equity is due to the addition of goodwill related to the acquisition of FNB Bankshares in 2005. In 2007, the Company's dividend payout ratio (the ratio of dividends declared to net income) was 51.49%, compared to 48.80% in 2006 and 40.15% in 2005.

The Company's efficiency ratio a benchmark measure of the amount spent to generate a dollar of income was 50.16% in 2007 compared to 59.47% for the Bank's peer group, on average. In 2006, the Bank's efficiency ratio was 52.12% compared to 56.21% for the Bank's peer group, on average. The efficiency ratio is calculated by dividing the Company's operating expenses (which excludes the provision for loan losses) by the total of net interest income on a tax-equivalent basis before provision for loan losses and other operating income (which excludes securities gains).

***Investment Management and Fiduciary Activities***

As of December 31, 2007, First Advisors, the Bank's private banking and investment management division, had assets under management with a market value of \$261.0 million, consisting of 1,020 trust accounts, estate accounts, agency accounts, and self-directed individual retirement accounts. This compares to December 31, 2006, when 1,054 accounts with a market value of \$351.2 million were under management. The decline in market value and number of accounts during 2007 was the result of a reorganization of this part of the Bank that included downsizing the number of offices and officers, which in turn led to an anticipated loss of assets under management.

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*Average Daily Balance Sheets*

The following table shows the Company's average daily balance sheets for the years ended December 31, 2007, 2006 and 2005.

<i>In thousands of dollars</i>	<u>Years ended December 31,</u>		
	<b>2007</b>	2006	2005
<b>Assets</b>			
Cash and due from banks	<b>\$ 19,978</b>	\$ 21,227	\$ 21,895
Interest-bearing deposits	-	1182	432
<b>Investments</b>			
U.S. Treasury securities & government agency securities	<b>110,637</b>	88,132	66,674
Obligations of states and political subdivisions	<b>61,189</b>	57,241	52,524
Other securities	<b>38,537</b>	46,780	42,068
Total investments	<b>210,363</b>	192,153	161,266
Loans held for sale	<b>623</b>	202	257
<b>Loans</b>			
Commercial	<b>354,235</b>	329,195	286,754
Consumer	<b>59,711</b>	47,578	35,464
State and municipal	<b>26,722</b>	22,107	21,833
Real estate	<b>432,342</b>	412,785	364,557
Total loans	<b>873,010</b>	811,665	708,608
Allowance for loan losses	<b>(6,634)</b>	(6,176)	(6,450)
Net loans	<b>866,376</b>	805,489	702,158
Premises and equipment, net	<b>15,664</b>	16,250	16,670
Goodwill	<b>15,037</b>	14,020	26,815
Other assets	<b>27,684</b>	27,684	18,059
<b>Total assets</b>	<b>\$ 1,155,725</b>	\$ 1,078,207	\$ 947,552
<b>Liabilities and shareholders' equity</b>			
<b>Deposits</b>			
Demand	<b>\$ 61,678</b>	\$ 62,571	\$ 60,102
NOW	<b>102,083</b>	101,103	109,048
Money market	<b>125,370</b>	126,837	115,359
Savings	<b>91,967</b>	102,683	112,376
Certificates of deposit	<b>323,367</b>	164,988	119,595
Certificates of deposit over \$100,000	<b>114,764</b>	231,867	143,557
Total deposits	<b>819,229</b>	790,049	660,037
Borrowed funds	<b>215,403</b>	173,200	179,409
Other liabilities	<b>10,951</b>	9,199	9,189
<b>Total liabilities</b>	<b>\$ 1,045,583</b>	\$ 972,448	\$ 848,635
Common stock	<b>98</b>	99	98
Additional paid-in capital	<b>45,644</b>	46,776	46,599
Retained earnings	<b>64,085</b>	58,275	50,689
Unrealized gain on securities available for sale	<b>574</b>	609	1,531
Unrealized loss on post-retirement benefit cost	<b>(259)</b>	-	-
<b>Total shareholders' equity</b>	<b>110,142</b>	105,759	98,917
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,155,725</b>	\$ 1,078,207	\$ 947,552



**Assets and Asset Quality**

Asset growth was strong in 2007, with the loan portfolio increasing by \$82.0 million or 9.8%, while the investment portfolio increased \$41.3 million or 22.9% over December 31, 2006. Total assets increased by 10.7% or \$118.4 million from \$1.10 billion at December 31, 2006, to \$1.22 billion at December 31, 2007. This increase in earning assets contributed to net interest income increasing \$1.2 million or 4.0% during 2007 when compared to 2006.

Although the Bank's loan delinquency ratio increased to 2.27% in 2007, compared to 1.50% on December 31, 2006 and 1.17% on December 31, 2005, it compares well to its peers. In Management's opinion, there has been no pattern or trend in loan delinquencies which is of concern.

***Investment Activities***

During 2007, the Company's investment portfolio increased 22.9% to end the year at \$221.8 million, compared to \$180.5 million on December 31, 2006. The Company's investment securities are classified into two categories: securities available for sale and securities to be held to maturity. Securities available for sale consist primarily of debt securities which Management intends to hold for indefinite periods of time. They may be used as part of the Company's funds management strategy, and may be sold in response to changes in interest rates, changes in prepayment risk, changes in liquidity needs, to increase capital ratios, or for other similar reasons. Securities to be held to maturity consist primarily of debt securities that the Company has acquired solely for long-term investment purposes, rather than for trading or future sale. For securities to be categorized as held to maturity, Management must have the intent and the Company must have the ability to hold such investments until their respective maturity dates. The Company does not hold trading account securities.

All investment securities are managed in accordance with a written investment policy adopted by the Board of Directors. It is the Company's general policy that investments for either portfolio be limited to government debt obligations, time deposits, banker's acceptances, corporate bonds and commercial paper with one of the three highest ratings given by a nationally recognized rating agency.

The Company's investment portfolio is primarily in U.S. Government agency securities and tax-exempt obligations of states and political subdivisions. The individual securities have been selected to enhance the portfolio's overall yield while not materially adding to the Company's level of interest rate risk. The following table sets forth the Company's investment securities at their carrying amounts as of December 31, 2007, 2006, and 2005.

<i>Dollars in thousands</i>	<b>2007</b>	2006	2005
<b>Securities available for sale</b>			
U.S. Treasury and agency	\$ -	\$ 4,967	\$ 9,101
Mortgage-backed securities	<b>1,322</b>	1,571	1,980
State and political subdivisions	<b>10,855</b>	11,073	11,782
Corporate securities	<b>14,727</b>	18,349	20,353
Federal Home Loan Bank stock	<b>12,569</b>	7,586	10,294
Federal Reserve Bank stock	<b>662</b>	662	653
Other equity securities	<b>326</b>	607	580
	<b>\$ 40,461</b>	\$ 44,815	\$ 54,743
<b>Securities to be held to maturity</b>			
U.S. Treasury and agency	<b>\$ 95,009</b>	\$ 46,192	\$ 42,274
Mortgage-backed securities	<b>30,786</b>	33,379	33,670
State and political subdivisions	<b>53,914</b>	47,549	44,685
Corporate securities	<b>1,645</b>	8,614	8,609
	<b>181,354</b>	135,734	129,238
Total securities	<b>\$ 221,815</b>	\$ 180,549	\$ 183,981

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The following table sets forth certain information regarding the yields and expected maturities of the Company's investment securities as of December 31, 2007. Yields on tax-exempt securities have been computed on a tax-equivalent basis using a tax rate of 35%. Mortgage-backed securities are presented according to their final contractual maturity date, while the calculated yield takes into effect the intermediate cashflows from repayment of principal which results in a much shorter average life.

	<u>Available For Sale</u>		<u>Held to Maturity</u>	
	Fair Value	Yield to maturity	Amortized Cost	Yield to maturity
<i>Dollars in thousands</i>				
<b>U.S. Treasury &amp; Agency</b>				
Due in 1 year or less	\$ -	0.00%	\$ -	0.00%
Due in 1 to 5 years	-	0.00%	3,000	4.03%
Due in 5 to 10 years	-	0.00%	7,000	5.26%
Due after 10 years	-	0.00%	85,009	6.49%
Total	-	0.00%	95,009	6.32%
<b>Mortgage-Backed Securities</b>				
Due in 1 year or less	5	11.68%	60	3.26%
Due in 1 to 5 years	249	1.61%	2,241	3.80%
Due in 5 to 10 years	155	7.00%	3,871	4.51%
Due after 10 years	913	3.00%	24,615	5.36%
Total	1,322	3.24%	30,787	5.14%
<b>State &amp; Political Subdivisions</b>				
Due in 1 year or less	-	0.00%	-	0.00%
Due in 1 to 5 years	494	6.71%	4,602	7.27%
Due in 5 to 10 years	10,361	7.39%	11,397	6.62%
Due after 10 years	-	0.00%	37,914	6.50%
Total	10,855	7.36%	53,913	6.59%
<b>Corporate Securities</b>				
Due in 1 year or less	1,001	7.03%	495	8.10%
Due in 1 to 5 years	11,572	7.74%	150	4.00%
Due in 5 to 10 years	1,095	7.90%	1,000	4.00%
Due after 10 years	1,059	6.28%	-	0.00%
Total	14,727	7.60%	1,645	5.23%
<b>Equity Securities</b>				
	13,557	5.94%	-	-
	\$40,461	6.84%	\$181,354	6.19%

**Lending Activities**

The loan portfolio experienced solid growth during 2007, with the most significant increase seen in commercial real estate loans. Total loans were \$920.2 million at December 31, 2007, a 9.8% increase from total loans of \$838.1 million at December 31, 2006. This continues the loan growth trend experienced by the Company over the past ten years. The following tables summarize the Bank's loan portfolio as of December 31, 2007, 2006, 2005, 2004, and 2003.

Dollars in thousands As of December 31,  
2007

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**OUR COMPANY**

**General**

We are a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for high-volume consumer applications. We believe we have one of the broadest and deepest analog and mixed-signal semiconductor technology platforms in the industry, supported by our 30-year operating history, large portfolio of approximately 2,975 registered novel patents and 425 pending novel patent applications, and extensive engineering and manufacturing process expertise. Our business is comprised of three key segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Our Display Solutions products include display drivers that cover a wide range of flat panel displays and mobile multimedia devices. Our Power Solutions products include discrete and integrated circuit solutions for power management in high-volume consumer applications. Our Semiconductor Manufacturing Services segment provides specialty analog and mixed-signal foundry services for fabless semiconductor companies that serve the consumer, computing and wireless end markets.

**Corporate Information**

MagnaChip Semiconductor LLC was first formed in Delaware as a limited liability company in November 2003, and was converted into MagnaChip Semiconductor Corporation, a Delaware corporation, in the corporate conversion in March 2011. Our principal executive offices are located at: c/o MagnaChip Semiconductor S.A., 74, rue de Merl, B.P. 709 L-2146 Luxembourg R.C.S., Luxembourg B-97483, and our telephone number is (352) 45-62-62. Our website address is [www.magnachip.com](http://www.magnachip.com). You should not consider the information contained on our website to be part of this prospectus or in deciding whether to purchase shares of our common stock.

**RISK FACTORS**

You should carefully consider the specific risks set forth under the caption "Risk Factors" in the applicable prospectus supplement and under the caption "Risk Factors" in any of our filings with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), incorporated by reference herein, before making an investment decision. For more information, see "Where You Can Find More Information."

**FORWARD-LOOKING STATEMENTS**

This prospectus, any applicable prospectus supplement and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act that involve risks and uncertainties. These statements involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify these statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as anticipate, estimate, expect, project, intend, plan, and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. All statements other than statements of historical facts included in this report that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements.

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These forward-looking statements are largely based on our expectations and beliefs concerning future events, which reflect estimates and assumptions made by our management. These estimates and assumptions

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reflect our best judgment based on currently known market conditions and other factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Although we believe our estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management's assumptions about future events may prove to be inaccurate. Management cautions all readers that the forward-looking statements contained in this report are not guarantees of future performance, and we cannot assure any reader that those statements will be realized or the forward-looking events and circumstances will occur. There are a number of important factors that could cause actual results to differ materially from the results anticipated by these forward-looking statements. These important factors include those that we discuss under the heading "Risk Factors" in this prospectus and in our most recent Annual Report on Form 10-K and any subsequently filed Quarterly Reports on Form 10-Q, which are incorporated by reference into this prospectus, as the same may be updated from time to time by our future filings under the Exchange Act.

You should read these risk factors and the other cautionary statements made in this prospectus, any applicable prospectus supplement and the documents incorporated by reference herein as being applicable to all related forward-looking statements wherever they appear in this prospectus, any applicable prospectus supplement and the documents incorporated by reference herein. We cannot assure you that the forward-looking statements in this prospectus will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, if at all.

The forward-looking statements made in this prospectus, any applicable prospectus supplement and the documents incorporated by reference herein relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, except to the extent required by applicable securities law.

**Table of Contents****USE OF PROCEEDS**

We will not receive any proceeds from the sale of Common Shares by the selling stockholders. All of the proceeds will go to the selling stockholders. Upon exercise of the warrants, the selling stockholders will pay us the exercise price of the warrants of \$15.76 per share. If the warrants exercisable for the Common Shares being registered held by the selling stockholders are completely exercised, we would receive a maximum of \$8,761,945 as a result of such exercises. There is no assurance that any of the warrants will be exercised. If we receive any proceeds from the exercise of the warrants, we intend to use these proceeds for general working capital purposes. The exercise price and number of shares of common stock issuable upon exercise of the warrants may be adjusted in certain circumstances, including stock splits, capital reorganizations, reclassifications, consolidations, combinations and mergers. The selling stockholders in this offering are funds affiliated with Avenue Capital Management II, L.P., collectively referred to herein as Avenue, which collectively beneficially owned approximately 55.5% of our outstanding common stock as of March 31, 2012, and are affiliated with directors of our company. See Selling Stockholders.

**SELLING STOCKHOLDERS**

The following table sets forth information with respect to the beneficial ownership of our common stock held as of March 31, 2012 by the selling stockholders, the number of shares of common stock being offered hereby and information with respect to common stock to be beneficially owned by the selling stockholders assuming all the Common Shares registered hereunder are sold. The amounts and percentages of common stock beneficially owned are reported on the basis of SEC regulations governing the determination of beneficial ownership of securities. Under SEC 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 such security, or investment power, which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has the right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed to be a beneficial owner of the same securities and a person may be deemed to be a beneficial owner of securities as to which he or she has no economic interest.

The percentages in the following table reflect the common stock beneficially owned by the selling stockholders as a percentage of the total number of shares of our common stock held and, to the extent applicable, issuable to the selling stockholders upon the exercise or conversion of any of our securities that are exercisable or convertible within 60 days of March 31, 2012. As of March 31, 2012, we had 36,880,879 shares of common stock outstanding.

The information set forth in the table below is based on information provided by or on behalf of the selling stockholders.

Name	Shares of Common Stock Beneficially Owned Prior to the Offering		Shares of Common Stock Offered Hereby Number	Shares of Common Stock Beneficially Owned After the Offering(1)	
	Number	Percentage		Number	Percentage
Avenue Special Situations Fund V, L.P.(2)(3)(4)	8,457,136	22.8%	8,457,136		
Avenue Special Situations Fund IV, L.P. (2)(3)(5)	6,685,868	18.1%	6,685,868		
Avenue International Master, L.P. (2)(3)(6)	3,372,721	9.1%	3,372,721		
Avenue-CDP Global Opportunities Fund, L.P. (2)(3)(7)	1,149,367	3.1%	1,149,367		
Avenue Investments L.P.(2)(3)(8)	1,124,447	3.0%	1,124,447		

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- (1) Assumes that the selling stockholders dispose of all the Common Shares covered by this prospectus and do not acquire beneficial ownership of any additional shares of common stock. The registration of these Common Shares does not necessarily mean that the selling stockholders will sell all or any portion of the Common Shares covered by this prospectus.
- (2) Affiliated with us as described in Material Relationships.
- (3) The following entities and persons are collectively referred to in this table as the Avenue Capital Group : (i) Avenue Investments, L.P. ( Avenue Investments ), (ii) Avenue International Master, L.P. ( Avenue International Master ), (iii) Avenue International, Ltd. ( Avenue International ), the sole limited partner of Avenue International Master, (iv) Avenue International Master GenPar, Ltd. ( Avenue International Master GenPar ), the general partner of Avenue International Master, (v) Avenue Partners, LLC ( Avenue Partners ), the general partner of Avenue Investments and the sole shareholder of Avenue International GenPar, (vi) Avenue-CDP Global Opportunities Fund, L.P. ( Avenue-CDP ), (vii) Avenue Global Opportunities Fund GenPar, LLC ( Avenue Global GenPar ), the general partner of Avenue-CDP, (viii) Avenue Special Situations Fund IV, L.P. ( Avenue Fund IV ), (ix) Avenue Capital Partners IV, LLC ( Avenue Capital IV ), the general partner of Avenue Fund IV, (x) GL Partners IV, LLC ( GL IV ), the managing member of Avenue Capital IV, (xi) Avenue Special Situations Fund V, L.P. ( Avenue Fund V ), (xii) Avenue Capital Partners V, LLC ( Avenue Capital V ), the general partner of Avenue Fund V, (xiii) GL Partners V, LLC ( GL V ), the managing member of Avenue Capital V, (xiv) Avenue Capital Management II, L.P. ( Avenue Capital Management ), the investment manager to Avenue Investments, Avenue International Master, Avenue-CDP, Avenue Fund IV and Avenue Fund V (collectively, the Avenue Funds ), (xv) Avenue Capital Management II GenPar, LLC ( Avenue Capital Management GenPar ), the general partner of Avenue Capital Management, and (xvi) Marc Lasry, the managing member of Avenue International GenPar, Avenue Partners, Avenue Global GenPar, GL IV, GL V and Avenue Capital Management GenPar.

Prior to the offering, Avenue Capital Group beneficially owns 20,789,539 shares of common stock, which includes 555,961 shares of common stock the Avenue Capital Group may receive through the exercise of outstanding warrants.

The Avenue Funds have the sole power to vote and dispose of the common stock and warrants held by them. Avenue International, Avenue International GenPar, Avenue Partners, Avenue Global GenPar, Avenue Capital IV, GL IV, Avenue Capital V, GL V, Avenue Capital Management, Avenue Capital Management GenPar and Marc Lasry have the shared power to vote and dispose of the common stock and warrants held by the Avenue Funds, all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest.

- (4) Prior to the offering, Avenue Fund V beneficially owns 8,457,136 shares of common stock, or 22.8%, which represents 8,184,421 shares of common stock and 272,715 shares of common stock issuable upon the exercise of warrants held by Avenue Fund V. The securities owned by Avenue Fund V may also be deemed to be beneficially owned by Avenue Capital V, its general partner; GL V, the managing member of Avenue Capital V; Avenue Capital Management, its investment manager; Avenue Capital Management GenPar, the general partner of Avenue Capital Management; and Mr. Lasry, the managing member of Avenue Capital Management GenPar and GL V; all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest. For further information regarding Avenue Fund V, please see footnote (3).
- (5) Prior to the offering, Avenue Fund IV beneficially owns 6,685,868 shares of common stock, or 18.1%, which represents 6,526,958 shares of common stock and 158,910 shares of common stock issuable upon the exercise of warrants held by Avenue Fund IV. The securities owned by Avenue Fund IV may also be deemed to be beneficially owned by Avenue Capital IV, its general partner; GL IV, the managing member of Avenue Capital IV; Avenue Capital Management, its investment manager; Avenue Capital Management GenPar, the general partner of Avenue Capital Management; and Mr. Lasry, the managing member of Avenue Capital Management GenPar and GL IV; all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest. For further information regarding Avenue Fund IV, please see footnote (3).

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- (6) Prior to the offering, Avenue International Master beneficially owns 3,372,721 shares of common stock, or 9.1%, which represents 3,302,273 shares of common stock and 70,448 shares of common stock issuable upon the exercise of warrants held by Avenue International Master. The securities owned by Avenue International Master may also be deemed to be beneficially owned by Avenue International, its sole limited partner; Avenue International GenPar, its general partner; Avenue Partners, the sole shareholder of Avenue International GenPar; Avenue Capital Management, its investment manager; Avenue Capital Management GenPar, the general partner of Avenue Capital Management; and Mr. Lasry, the managing member of Avenue Capital Management GenPar, Avenue Partners and Avenue International GenPar; all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest. For further information regarding Avenue International Master, please see footnote (3).
- (7) Prior to the offering, Avenue-CDP beneficially owns 1,149,367 shares of common stock, or 3.1%, which represents 1,119,052 shares of common stock and 30,315 shares of common stock issuable upon the exercise of warrants held by Avenue-CDP. The securities owned by Avenue-CDP may also be deemed to be beneficially owned by Avenue Global GenPar, its general partner; Avenue Capital Management, its investment manager; Avenue Capital Management GenPar, the general partner of Avenue Capital Management; and Mr. Lasry, the managing member of Avenue Capital Management GenPar and Avenue Global GenPar; all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest. For further information regarding Avenue-CDP, please see footnote (3).
- (8) Prior to the offering, Avenue Investments beneficially owns 1,124,447 shares of common stock, or 3.0%, which represents 1,100,874 shares of common stock and 23,573 shares of common stock issuable upon the exercise of warrants held by Avenue Investments. The securities owned by Avenue Investments may also be deemed to be beneficially owned by Avenue Partners, its general partner; Avenue Capital Management, its investment manager; Avenue Capital Management GenPar, the general partner of Avenue Capital Management; and Mr. Lasry, the managing member of Avenue Capital Management GenPar and Avenue Partners; all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest. For further information regarding Avenue Investments, please see footnote (3).

## **Material Relationships**

As of March 31, 2012, Avenue beneficially owned approximately 20,789,539 shares of common stock, or 55.5% of our outstanding common stock. In addition, affiliates of Avenue currently have three employees, Messrs. Elkins, Klein and Mulhern, serving as members of our seven-member board of directors.

## **Issuance of Common Stock**

Prior to the completion of the corporate conversion, all of our outstanding equity securities were issued in the form of units by MagnaChip Semiconductor LLC. The following paragraph discusses the number of shares of our common stock that were issued to Avenue in conversion of the units upon the completion of the corporate conversion.

In connection with our reorganization proceedings, Avenue received an aggregate of 1,043,544 shares of common stock and warrants to purchase up to an aggregate of 555,961 shares of common stock in exchange for the release of claims relating to outstanding indebtedness in an aggregate principal amount of approximately \$322.6 million. Avenue also acquired 22,016,423 shares of common stock at \$1.12 per share pursuant to a \$35 million rights offering that we completed in November 2009 and an additional 3,750,000 shares of common stock for providing a backstop service in agreeing to purchase any unsubscribed units in the offering.

## **Registration Rights Agreement**

On November 9, 2009, we entered into a registration rights agreement, which we refer to in this prospectus as the Registration Rights Agreement, with the holders of MagnaChip Semiconductor LLC's common units issued in our reorganization proceedings, including Avenue, where we granted them registration rights with respect to our common stock.



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**Warrant Agreement**

On November 9, 2009, we entered into a warrant agreement with American Stock Transfer & Trust Company, LLC, which we refer to in this prospectus as the Warrant Agreement, whereby we issued warrants to purchase an aggregate of 1,875,017 shares of common stock pursuant to the reorganization proceedings to certain former creditors, which included Avenue.

**Senior Debt**

In April 2010, we sold \$250 million of our senior notes to repay our senior secured credit facility. Avenue, our majority stockholder and affiliates, purchased \$35 million in principal amount of our senior notes. Avenue is also affiliated with our directors Messrs. Elkins, Klein and Mulhern. On May 16, 2011, two of our wholly-owned subsidiaries, MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, repurchased \$35 million of the senior notes from Avenue, at a price of \$1,090 per \$1,000 principal amount of senior notes. We paid Avenue \$2.2 million in interest for the year ended December 31, 2011.

**Notes Registration Rights Agreement**

In connection with the original issuance and sale of the senior notes, we entered into an exchange and registration rights agreement, dated as of April 9, 2010, with the initial purchasers of the senior notes pursuant to which we agreed to file, and thereafter filed, with the SEC a registration statement covering a registered exchange offer by us for the senior notes and a shelf registration statement covering resales of senior notes by certain holders, including Avenue.

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**PLAN OF DISTRIBUTION**

We are registering 20,789,539 Common Shares for possible sale by the selling stockholders. Unless the context otherwise requires, as used in this prospectus, selling stockholders includes the selling stockholders named in the table above and donees, pledgees, transferees or other successors-in-interest selling Common Shares received from the selling stockholders as a gift, pledge, partnership distribution or other transfer after the date of this prospectus.

The selling stockholders may offer and sell all or a portion of the Common Shares covered by this prospectus from time to time, in one or more or any combination of the following transactions:

in underwritten transactions;

on the NYSE, in the over-the-counter market or on any other national securities exchange on which our shares are then listed or traded;

in privately negotiated transactions;

in a block trade in which a broker-dealer will attempt to sell the offered shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

through purchases by a broker-dealer as principal and resale by the broker-dealer for its account pursuant to this prospectus;

in ordinary brokerage transactions and transactions in which the broker solicits purchasers; and

through the writing of options (including put or call options), whether the options are listed on an options exchange or otherwise.

The selling stockholders may sell the Common Shares at prices then prevailing or related to the then current market price or at negotiated prices. The offering price of the Common Shares from time to time will be determined by the selling stockholders and, at the time of the determination, may be higher or lower than the market price of our common stock on NYSE or any other exchange or market.

The Common Shares may be sold directly or through broker-dealers acting as principal or agent, or pursuant to a distribution by one or more underwriters on a firm commitment or best-efforts basis. The selling stockholders may also enter into hedging transactions with broker-dealers. In connection with such transactions, broker-dealers of other financial institutions may engage in short sales of our Common Shares in the course of hedging the positions they assume with the selling stockholders. The selling stockholders may also enter into options or other transactions with broker-dealers or other financial institutions which require the delivery to such broker-dealer or other financial institution of Common Shares offered by this prospectus, which Common Shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction). In connection with an underwritten offering, underwriters or agents may receive compensation in the form of discounts, concessions or commissions from the selling stockholders or from purchasers of the offered Common Shares for whom they may act as agents. In addition, underwriters may sell the Common Shares to or through dealers, and those dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. The selling stockholders and any underwriters, dealers or agents participating in a distribution of the Common Shares may be deemed to be underwriters within the meaning of the Securities Act, and any profit on the sale of

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the Common Shares by the selling stockholders and any commissions received by broker-dealers may be deemed to be underwriting commissions under the Securities Act.

The selling stockholders may agree to indemnify an underwriter, broker-dealer or agent against certain liabilities related to the selling of the Common Shares, including liabilities arising under the Securities Act. Under the Registration Rights Agreement, we have agreed to indemnify the selling stockholders against certain

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liabilities related to the sale of the Common Shares, including certain liabilities arising under the Securities Act. Under the Registration Rights Agreement, we have also agreed to pay the costs, expenses and fees of registering the Common Shares, including the fees, charges and disbursements of one firm of counsel to the selling stockholders; however, the selling stockholders will pay any underwriting fees, discounts, selling commissions and stock transfer taxes relating to the registration and sale of the Common Shares in any underwritten offering.

Upon our notification by the selling stockholders that any material arrangement has been entered into with an underwriter or broker-dealer for the sale of Common Shares through a block trade, special offering, exchange distribution, secondary distribution or a purchase by an underwriter or broker-dealer, we will file a supplement to this prospectus, if required, pursuant to Rule 424(b) under the Securities Act, disclosing certain material information, including:

the name of the selling stockholders;

the number of Common Shares being offered;

the terms of the offering;

the names of the participating underwriters, broker-dealers or agents;

any fees, discounts, selling commissions or other compensation paid to underwriters or broker-dealers and any fees, discounts, selling commissions or concessions allowed or reallocated or paid by any underwriters to dealers;

the public offering price; and

other material terms of the offering.

In addition, upon being notified by the selling stockholders that a donee, pledgee, transferee, other successor-in-interest intends to sell more than 500 Common Shares, we will, to the extent required, promptly file a supplement to this prospectus to name specifically such person as a selling stockholder.

The selling stockholders are subject to the applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M. This regulation may limit the timing of purchases and sales of any of the Common Shares offered in this prospectus by the selling stockholders. The anti-manipulation rules under the Exchange Act may apply to sales of the Common Shares in the market and to the activities of the selling stockholders and their affiliates. Furthermore, Regulation M may restrict the ability of any person engaged in the distribution of the Common Shares to engage in market-making activities for the particular securities being distributed for a period of up to five business days before the distribution. The restrictions may affect the marketability of the Common Shares and the ability of any person or entity to engage in market-making activities for the Common Shares.

In compliance with the guidelines of the Financial Industry Regulatory Authority ( FINRA ), the aggregate maximum discount, commission, agency fees, or other items constituting underwriting compensation to be received by any FINRA member or independent broker dealer will not exceed 8% of any offering pursuant to this prospectus and any applicable prospectus supplement.

To the extent required, this prospectus may be amended and/or supplemented from time to time to describe a specific plan of distribution. Instead of selling the Common Shares under this prospectus, the selling stockholders may sell the

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Common Shares in compliance with the provisions of Rule 144 under the Securities Act, if available, or pursuant to other available exemptions from the registration requirements of the Securities Act.

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**DESCRIPTION OF COMMON STOCK**

*The following description of the material terms of our capital stock does not purport to be complete and is qualified in its entirety by reference to our certificate of incorporation and bylaws, which documents are incorporated by reference as exhibits to the registration statement of which this prospectus is a part, and the applicable provisions of the Delaware General Corporation Law (DGCL).*

Our authorized common stock consists of 150,000,000 shares. As of March 31, 2012, there were 36,880,879 shares of common stock outstanding. We also had outstanding options to purchase 3,198,248 shares of common stock at a weighted average exercise price of \$7.18 per share. As of March 31, 2012, we have reserved an aggregate of 1,471,854 shares of common stock for issuance to our and our subsidiaries' current and future directors, employees and consultants pursuant to our 2011 Equity Incentive Plan and our 2011 Employee Stock Purchase Plan. MagnaChip Semiconductor LLC issued warrants to purchase an aggregate of 1,875,017 shares of common stock (after giving effect to the corporate conversion) pursuant to the reorganization proceedings, which are subject to the Warrant Agreement. At March 31, 2012, 1,875,028 shares of common stock were subject to outstanding warrants and no shares of common stock had been purchased in connection with the exercise of such previously issued warrants.

Holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. Our stockholders do not have cumulative voting rights in the election of directors. Except as required by law or our certificate of incorporation and bylaws, the vote of a majority of the shares represented in person or by proxy at any meeting at which a quorum is present will be sufficient for the transaction of any business at a meeting. Subject to preferences held by, or that may be granted to, any outstanding shares of preferred stock, holders of our common stock will be entitled to receive ratably those dividends as may be declared by our board of directors out of funds legally available for such distributions, as well as any other distributions made to our stockholders. In the event of our liquidation, dissolution or winding up, holders of our common stock are entitled to share ratably in all of our assets remaining after we pay our liabilities and any liquidation preferences granted to the holders of outstanding shares of preferred stock. Holders of our common stock have no preemptive or other subscription or conversion rights. There are no redemption or sinking fund provisions applicable to our common stock. All shares of our common stock that are outstanding are fully paid and non-assessable.

**Registration Rights**

Pursuant to the Registration Rights Agreement, certain parties thereto, including the selling stockholders, have certain rights with respect to the registration of their shares of our common stock under the Securities Act, including shares of common stock issuable upon exercise of warrants to purchase our common stock.

***Demand Registration Rights.*** Commencing 90 days following the completion of a firm commitment underwritten public offering of our securities pursuant to an effective registration statement filed by us under the Securities Act resulting in gross proceeds of at least \$75.0 million to us, any holder who is a party to the Registration Rights Agreement who holds registrable securities has the right to demand that we file a registration statement covering the resale of its common stock, provided that a minimum of 20% of the common stock covered by the Registration Rights Agreement is included in such request, subject to a maximum of four such demands in the aggregate for all holders and to other specified exceptions. After we become eligible for the use of SEC Form S-3, any holder who is a party to the Registration Rights Agreement who holds registrable securities has the right to demand that we file with the SEC a registration statement under SEC Form S-3 or any similar short-form registration statement covering the shares of common stock held by these stockholders to be offered to the public, subject to specified exceptions. At the request of the holders, a demand registration may be a shelf registration pursuant to Rule 415 of the Securities Act.

The underwriters of any such offerings will have the right to limit the number of shares to be offered except that if a limit is imposed, then only shares held by holders who are parties to the Registration Rights Agreement will be included in such offering and the number of shares to be included in such offering will be allocated pro

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rata among those same parties. In any event, we will not include any securities of any other person (including us) in any demand registration statement without the prior written consent of the holders of a majority of the shares of common stock covered by such demand registration statement.

In no event will we be required to effect more than one demand registration under the Registration Rights Agreement within any three-month period (or within a given one-month period, in the case of any registration under Form S-3 or any similar short-form registration statement), and we will not be obligated to effect any demand registration unless the aggregate gross proceeds to be received from the sale of common stock equals or exceeds \$10.0 million (or \$1.0 million, in the case of any registration under Form S-3 or any similar short-form registration statement).

***Piggyback Registration Rights.*** If we register any equity securities for our own account for public sale, stockholders with registration rights will, with specified exceptions, have the right to include their shares in the registration statement. The underwriters of any underwritten offering will have the right to limit the number of such shares to be included in the registration statement if the inclusion of all common stock of the holders who are a party to the Registration Rights Agreement proposed to be included in such offering would materially and adversely interfere with the successful marketing of our securities. Priority of inclusion in the registration shall be given first to us, second to stockholders with registration rights, pro rata on the basis of the relative number of securities requested to be registered by such stockholder, and third to any other participating person on such basis as we determine.

***Expenses of Registration.*** Other than underwriting fees, discounts, commissions, stock transfer taxes and fees and disbursements of legal counsel to participating holders (excluding the fees of one firm of legal counsel to all of the participating holders participating in an underwritten public offering), we will pay all expenses relating to demand registrations and all expenses relating to piggyback registrations.

***Indemnification and Contribution.*** The Registration Rights Agreement contains indemnification and contribution arrangements between us and stockholders who are a party to the Registration Rights Agreement with respect to each registration statement.

### **Anti-takeover Effects of Delaware Law and our Certificate of Incorporation and Bylaws**

The provisions of Delaware law, our certificate of incorporation and our bylaws described below may have the effect of delaying, deferring or discouraging another party from acquiring control of us.

***Delaware Law.*** We are subject to the provisions of Section 203 of the DGCL regulating corporate takeovers. In general, those provisions prohibit a public Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder, unless:

the transaction is approved by the board of directors before the date the interested stockholder attained that status;

upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or

on or after the date the business combination is approved by the board of directors and authorized at a meeting of stockholders, and not by written consent, by at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

In general, Section 203 defines a business combination to include the following:

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any merger or consolidation involving the corporation and the interested stockholder;

any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;



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subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or

the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by any such entity or person.

A Delaware corporation may opt out of this provision by express provision in its original certificate of incorporation or by amendment to its certificate of incorporation or bylaws approved by its stockholders. However, we have not opted out of, and do not currently intend to opt out of, this provision. The statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us.

**Charter and Bylaws.** Our certificate of incorporation and bylaws contain certain provisions that are intended to enhance the likelihood of continuity and stability in the composition of the board of directors and which may have the effect of delaying, deferring or preventing a future takeover or change in control of our company unless such takeover or change in control is approved by the board of directors, including:

**Authorized but Unissued Preferred Stock.** Our board of directors is authorized to issue, without stockholder approval, preferred stock with such terms as the board of directors may determine.

**Calling Special Stockholder Meetings.** Our bylaws provide that special meetings of our stockholders may be called only pursuant to the request of our board of directors, by the chairman of our board of directors, by our chief executive officer or by the holders of at least 25% of the voting power of all then outstanding shares of our common stock. In addition, stockholders may not fill vacancies on the board of directors and may not act by written consent.

**Advanced Notice Procedures.** Stockholders must timely provide advance notice, with specific requirements as to form and content, of nominations of directors or the proposal of business to be voted on at an annual meeting.

**Classified Board of Directors.** Our bylaws provide that our board of directors will be divided into three classes of directors, with the classes to be as nearly equal in number as possible. Our board is classified, with two directors in Class I, two directors in Class II and three directors in Class III. The members of each class will serve for a term expiring at the third succeeding annual meeting of stockholders. As a result, approximately one-third of our board will be elected each year. A replacement director shall serve in the same class as the former director he or she is replacing. The classification of our board will have the effect of making it more difficult for stockholders to change the composition of our board.

**Other Board of Director Requirements.** Our authorized number of directors may be changed only by resolution of the board of directors and all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum. In addition, directors may only be removed for cause and then only by a vote of holders of a majority of

the shares entitled to vote at an election of directors.

***Conflicts of Interest.*** Delaware law permits corporations to adopt provisions renouncing any interest or expectancy in certain opportunities that are presented to the corporation or its officers, directors or stockholders. Our certificate of incorporation renounces any interest or expectancy that we have in, or right to be offered an opportunity to participate in, specified business opportunities. Our certificate of incorporation provides that none of our non-employee directors, non-employee 5% or greater

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stockholders or their affiliates will have any duty to refrain from engaging in a corporate opportunity in the same or similar lines of business in which we or our affiliates now engage or propose to engage. In addition, in the event that any such director, stockholder or affiliate acquires knowledge of a potential transaction or other business opportunity which may be a corporate opportunity for us or our affiliates, such person will have no duty to communicate or offer such transaction or business opportunity to us and may take any such opportunity for themselves or offer it to another person or entity. Our certificate of incorporation does not renounce our interest in any business opportunity that is expressly offered to a director solely in his or her capacity as our director.

***Director and Officer Indemnification.*** We will indemnify officers and directors against losses that they may incur in investigations and legal proceedings resulting from their services to us, which may include services in connection with takeover defense measures.

***Supermajority Voting Requirements.*** The affirmative vote of the holders of at least 66 2/3% in voting power of all shares of our capital stock entitled to vote generally in the election of directors, voting together as a single class, is required in order for our stockholders to alter, amend or repeal the provisions of our bylaws or amend or repeal of certain provisions of our certificate of incorporation including the following:

classified board (the election and term of our directors);

the resignation and removal of directors;

the provisions regarding competition and corporate opportunities;

the provisions regarding stockholder action by written consent;

the provisions regarding calling special meetings of stockholders;

filling vacancies on our board and newly created directorships;

the advance notice requirements for stockholder proposals and director nominations; and

indemnification provisions.

In addition, our certificate of incorporation grants our board the authority to amend and repeal our bylaws without a stockholder vote in any manner not inconsistent with the laws of the State of Delaware or our certificate of incorporation.

## **Limitations on Liability and Indemnification of Officers and Directors**

The DGCL authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties. Our certificate of incorporation includes a provision that eliminates the personal liability of directors for monetary damages for actions taken as a director, except to the extent such exemption from liability is not permitted by the DGCL.

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Our certificate of incorporation and bylaws provide that we must indemnify our directors and officers to the fullest extent authorized by the DGCL. We are also expressly obligated to advance certain expenses (including attorneys' fees and disbursements and court costs) and carry directors' and officers' insurance providing indemnification for our directors, officers and certain employees for some liabilities. We believe that these indemnification provisions and insurance are useful to attract and retain qualified directors and executive officers.

The limitation of liability and indemnification provisions in our certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. In addition, your investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

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### **Listing**

Our common stock is listing on the NYSE under the symbol MX.

### **Transfer Agent and Registrar; Warrant Agent**

The transfer agent and registrar for our common stock and the warrant agent for our warrants is American Stock Transfer & Trust Company, LLC and its telephone number is (800) 937-5449.

## **LEGAL MATTERS**

Jones Day, Palo Alto, has issued an opinion with respect to the validity of the Common Shares to be offered by this prospectus. If counsel for any underwriters passes on legal matters in connection with an offering of the Common Shares described in this prospectus, we will name that counsel in the prospectus supplement relating to that offering.

## **EXPERTS**

The financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2011 have been so incorporated in reliance on the reports of Samil PricewaterhouseCoopers, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing. The address of Samil PricewaterhouseCoopers is LS Yongsan Tower, 191 Hangangro 2ga, Yongsan-gu, Seoul 140-702, Korea. Samil PricewaterhouseCoopers is a member of the Korean Institute of Certified Public Accountants.

## **WHERE YOU CAN FIND MORE INFORMATION**

We are subject to the reporting requirements of the Exchange Act, and in accordance therewith file reports, including annual and quarterly reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information may be inspected and copied at prescribed rates at the public reference facilities maintained by the SEC at the SEC's Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. Further information on the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, such reports, proxy statements and other information may be accessed through the SEC Internet website located at <http://www.sec.gov>.

This prospectus is part of a registration statement on Form S-3 that we have filed with the SEC under the Securities Act for the registration under the Securities Act of the securities offered hereby. This prospectus does not contain all the information set forth in the registration statement, parts of which are omitted in accordance with the rules and regulations of the SEC. Reference is hereby made to the registration statement which contains further information with respect to our company and our securities. Statements herein concerning the provisions of documents filed as exhibits to the registration statement are necessarily summaries of such documents, and each such statement is qualified by reference to the copy of the applicable document filed with the SEC.

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**INCORPORATION OF CERTAIN INFORMATION BY REFERENCE**

We incorporate by reference in this prospectus the documents listed below, each of which should be considered an important part of this prospectus.

Our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on March 8, 2012;

The description of our common stock, par value \$0.01 per share, contained in our registration statement on Form S-1 (Registration No. 333-165467), originally filed with the SEC on March 15, 2010, as amended, which description is incorporated by reference into our Amendment No. 1 to our Form 8-A filed with the SEC on March 10, 2011 and any amendment or report filed for the purpose of further updating such description.

All documents subsequently filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than portions of these documents that are either (1) described in paragraph (e) of Item 201 of Regulation S-K or paragraphs (d)(1) (3) and (e)(5) of Item 407 of Regulation S-K promulgated by the SEC or (2) furnished under Item 2.02 or Item 7.01 of a Current Report on Form 8-K), after the date of the initial registration statement of which this prospectus is a part but prior to the effectiveness of the registration statement and between the date of this prospectus and the termination of the offering, shall be deemed to be incorporated by reference herein and to be a part hereof from the date of the filing of such documents.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this registration statement shall be deemed to be modified or superseded for purposes of this registration statement to the extent that a statement contained in this registration statement, or in any other subsequently filed document that also is or is deemed to be incorporated by reference in this registration statement, modifies or supersedes such prior statement. Any statement contained in this registration statement shall be deemed to be modified or superseded to the extent that a statement contained in a subsequently filed document that is or is deemed to be incorporated by reference in this registration statement modifies or supersedes such prior statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this registration statement.

You may obtain, free of charge, a copy of any of our filings (other than exhibits to these documents, unless the exhibits are specifically incorporated by reference into these documents or referred to in this prospectus) by writing or calling us at the following address and telephone number: c/o MagnaChip Semiconductor, Inc., 20400 Stevens Creek Boulevard, Suite 370, Cupertino, CA 95014, Attention: Executive Vice President, General Counsel and Secretary; the telephone number at that address is 408-625-5999.

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**5,000,000 Shares**  
**MagnaChip Semiconductor Corporation**  
**Common Stock**

PROSPECTUS SUPPLEMENT

**Barclays    Deutsche Bank Securities    Citigroup    UBS Investment Bank**

**Needham & Company**