

FIRST NATIONAL LINCOLN CORP /ME/
Form 10-Q
May 10, 2006
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2006

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

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

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to such filing requirements for the past 90 days.

Yes No

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of April 30, 2006

Common Stock: 9,850,383 shares

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Part I. Financial Information**Selected Financial Data (Unaudited)**

First National Lincoln Corporation and Subsidiary

<i>Dollars in thousands, except for per share amounts</i>	For the three months ended	
	<u>March 31</u>	
	2006	2005
<i>Summary of Operations</i>		
Operating Income	\$16,885	\$12,559
Operating Expense	12,748	8,359
Net Interest Income	7,748	7,443
Provision for Loan Losses	250	-
Net Income	2,978	2,995
<i>Per Common Share Data</i>		
Basic Earnings per Share	\$0.30	\$0.32
Diluted Earnings per Share	0.30	0.31
Cash Dividends Declared	0.145	0.125
Book Value	10.62	10.10
Market Value	17.59	17.00
<i>Financial Ratios</i>		
Return on Average Equity ¹	11.56%	13.23%
Return on Average Tangible Equity ¹	15.74%	17.74%
Return on Average Assets ¹	1.15%	1.40%
Average Equity to Average Assets	9.92%	10.61%
Average Tangible Equity to Average Assets	7.29%	7.92%
Net Interest Margin Tax-Equivalent ¹	3.46%	3.99%
Dividend Payout Ratio	48.33%	39.06%
Allowance for Loan Losses/Total Loans	0.77%	0.96%
Non-Performing Loans to Total Loans	0.51%	0.37%
Non-Performing Assets to Total Assets	0.38%	0.27%
Efficiency Ratio ²	52.60%	51.37%
<i>At Period End</i>		
Total Assets	\$ 1,060,373	\$ 918,218
Total Loans	791,315	682,668
Total Investment Securities	187,930	156,182
Total Deposits	750,714	606,180
Total Shareholders' Equity	104,579	99,715

¹Annualized using a 365-day basis²The Company uses the following formula in calculating its efficiency ratio:

Non-Interest Expense - Loss on Securities Sales

Tax-Equivalent Net Interest Income + Non-Interest Income Gains on Securities Sales

Item 1 Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

First National Lincoln Corporation

We have reviewed the accompanying interim consolidated financial information of First National Lincoln Corporation and Subsidiary as of March 31, 2006 and 2005, for the three-month periods, then ended. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is to express an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ Berry, Dunn, McNeil & Parker

Portland, Maine

May 5, 2006

Consolidated Balance Sheets (Unaudited)

First National Lincoln Corporation and Subsidiary

<i>In thousands of dollars</i>	March 31, 2006	December 31, 2005	March 31, 2005
Assets			
Cash and due from banks	\$ 21,052	\$ 25,982	\$ 22,206
Overnight funds sold	-	-	-
Investments:			
Available for sale	54,369	54,743	52,362
Held to maturity (market values \$131,610 at 3/31/2006, \$128,563 at 12/31/2005, and \$103,367 at 3/31/2005)	133,561	129,238	103,820
Loans held for sale (fair value approximates cost)	-	-	-
Loans	791,315	772,338	682,668
Less: allowance for loan losses	6,131	6,086	6,577
Net loans	785,184	766,252	676,091
Accrued interest receivable	6,096	5,005	5,032
Premises and equipment	16,516	16,712	17,000
Other real estate owned	498	-	-
Goodwill	27,684	27,684	27,960
Other assets	15,413	16,593	13,747
Total Assets	\$1,060,373	\$1,042,209	\$ 918,218
Liabilities			
Demand deposits	\$ 58,526	\$ 62,109	\$ 54,443
NOW deposits	100,432	109,124	104,693
Money market deposits	118,670	127,630	114,191
Savings deposits	103,267	109,615	110,543
Certificates of deposit	154,068	125,741	114,093
Certificates \$100,000 and over	215,751	179,745	108,217
Total deposits	750,714	713,964	606,180
Borrowed funds	194,172	215,189	202,856
Other liabilities	10,908	9,604	9,467
Total Liabilities	955,794	938,757	818,503
Shareholders' Equity			
Common stock	100	99	100
Additional paid-in capital	47,430	47,718	49,398
Retained earnings	56,505	54,901	48,887
Net unrealized gains on available-for-sale securities	544	734	1,330
Total Shareholders' Equity	104,579	103,452	99,715
Total Liabilities & Shareholders' Equity	\$1,060,373	\$1,042,209	\$ 918,218
Common Stock			
Number of shares authorized	18,000,000	18,000,000	18,000,000
Number of shares issued and outstanding	9,849,166	9,832,777	9,871,317
Book value per share	\$10.62	\$10.52	\$10.10

See Report of Independent Registered Public Accounting Firm.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income (Unaudited)

First National Lincoln Corporation and Subsidiary

<i>In thousands of dollars</i>	For the three months	
	<u>ended March 31,</u>	
	2006	2005
Interest income		
Interest and fees on loans	\$12,507	\$9,085
Interest on deposits with other banks	-	-
Interest and dividends on investments	2,305	1,811
Total interest income	14,812	10,896
Interest expense		
Interest on deposits	5,119	2,212
Interest on borrowed funds	1,945	1,241
Total interest expense	7,064	3,453
Net interest income	7,748	7,443
Provision for loan losses	250	-
Net interest income after provision for loan losses	7,498	7,443
Non-interest income		
Investment management and fiduciary income	496	400
Service charges on deposit accounts	622	487
Net securities gains	-	-
Mortgage origination and servicing income	84	128
Other operating income	871	648
Total non-interest income	2,073	1,663
Non-interest expense		
Salaries and employee benefits	2,662	2,626
Occupancy expense	374	350
Furniture and equipment expense	505	453
Amortization of identified intangibles	71	59
Other operating expense	1,822	1,418
Total non-interest expense	5,434	4,906
Income before income taxes	4,137	4,200
Applicable income taxes	1,159	1,205
NET INCOME	\$2,978	\$2,995
Earnings per common share:		
Basic earnings per share	\$0.30	\$0.32
Diluted earnings per share	\$0.30	\$0.31
Cash dividends declared per share	\$0.145	\$0.125
Weighted average number of shares outstanding	9,857,326	9,474,770
Incremental shares	84,829	146,222

See Report of Independent Registered Public Accounting Firm.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

First National Lincoln Corporation and Subsidiary

*In thousands of
dollars except
number of
shares and per
share amounts*

Number of common shares Common stock Additional paid-in capital Retained earnings Net unrealized gains on securities available for sale

Balance at**December 31,**

2004	7,356,836	\$ 74	\$ 3,973	\$ 46,809	\$ 1,959
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Net income	-	-	-	2,995	-
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Net unrealized					
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loss on					
---------	--	--	--	--	--

securities					
------------	--	--	--	--	--

available for					
---------------	--	--	--	--	--

sale, net of tax					
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benefit of \$339 -	-	-	-	-	(629)
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Comprehensive					
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income	-	-	-	2,995	(629)
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Cash dividends					
----------------	--	--	--	--	--

declared	-	-	-	(1,234)	-
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Payment to					
------------	--	--	--	--	--

repurchase					
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common stock (38,425)	-	-	(492)	-	-
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Proceeds from					
---------------	--	--	--	--	--

sale of					
---------	--	--	--	--	--

common stock 88,308	1	1	556	-	-
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Tax benefit of					
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disqualifying					
---------------	--	--	--	--	--

disposition of					
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incentive stock					
-----------------	--	--	--	--	--

option shares	-	-	-	317	-
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Acquisition of					
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FNB					
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Bankshares 2,464,598	25	25	45,361	-	-
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Balance at**March 31,**

2005	9,871,317	\$ 100	\$ 49,398	\$ 48,887	\$ 1,330
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Balance at**December 31,**

2005	9,832,777	\$ 99	\$ 47,718	\$ 54,901	\$ 734
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Net income	-	-	-	2,978	-
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Net unrealized					
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loss on					
---------	--	--	--	--	--

securities					
------------	--	--	--	--	--

available for					
---------------	--	--	--	--	--

sale, net of tax					
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benefit of \$102 -	-	-	-	-	(190)
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Comprehensive					
---------------	--	--	--	--	--

income	-	-	-	2,978	(190)
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Cash dividends					
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declared	-	-	-	(1,429)	-
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Payment to repurchase common stock (32,887)	-	(578)	-	-
Proceeds from sale of common stock 49,276	1	290	-	-
Tax benefit of disqualifying disposition of incentive stock option shares -	-	-	55	-
Balance at March 31, 2006	9,849,166	\$ 100	\$ 47,430	\$ 56,505
See Report of Independent Registered Public Accounting Firm.				\$ 544

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows (Unaudited)

First National Lincoln Corporation and Subsidiary

<i>In thousands of dollars</i>	For the three months ended March 31,	
	2006	2005
Cash flows from operating activities		
Net income	\$2,978	\$2,995
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	344	323
Provision for loan losses	250	-
Loans originated for resale	(4,198)	(4,090)
Proceeds from sales and transfers of loans	4,198	4,681
Net gain on sale of other real estate owned	-	-
Net (increase) decrease in other assets and accrued interest	18	(573)
Net increase in other liabilities	1,354	2,705
Net amortization (accretion) of premiums (discounts) on investments	(21)	46
Net acquisition amortization	67	81
Net cash provided by operating activities	4,990	6,168
Cash flows from investing activities		
Proceeds from maturities, payments and calls of securities available for sale	97	1,229
Proceeds from maturities, payments and calls of securities to be held to maturity	2,817	9,233
Proceeds from sales of other real estate owned	-	-
Purchases of securities available for sale	-	(702)
Purchases of securities to be held to maturity	(7,134)	(13,551)
Net increase in loans	(19,727)	(19,369)
Capital expenditures	(148)	(495)
Cash for acquisition, net of cash acquired	-	3,591
Net cash used in investing activities	(24,095)	(20,064)
Cash flows from financing activities		
Net increase (decrease) in demand deposits, savings, money market and club accounts	(27,583)	5,494
Net increase in certificates of deposit	64,378	38,041
Advances on long-term borrowings	-	-
Repayment on long-term borrowings	-	(9,990)
Net decrease in short-term borrowings	(21,011)	(11,394)
Payments to repurchase common stock	(578)	(492)
Proceeds from sale of treasury stock	291	557
Tax benefit from disqualifying disposition of stock options	55	-
Dividends paid	(1,377)	(884)
Net cash provided by financing activities	14,175	21,332
Net increase (decrease) in cash and cash equivalents	(4,930)	7,436
Cash and cash equivalents at beginning of period	25,982	14,770
Cash and cash equivalents at end of period	\$21,052	\$22,206
Interest paid	\$6,292	\$3,196
Income taxes paid	\$8	\$2,532
Non-cash transactions		
Change in net unrealized gain on available for sale securities, net of tax benefit	\$(190)	\$(629)
Fair value of assets acquired	\$-	\$258,631
Less liabilities assumed	\$-	\$214,266

See Report of Independent Registered Public Accounting Firm.

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

First National Lincoln Corporation and Subsidiary

Note 1 Basis of Presentation

First National Lincoln Corporation (the Company) is a financial holding company that owns all of the common stock of The First, N.A. (the Bank). The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany transactions and balances are eliminated in consolidation. On January 14, 2005, the Company completed the acquisition of FNB Bankshares (FNB) of Bar Harbor, Maine, and operating results include the effect of the FNB acquisition only after the closing date (see Note 7 Pro-Forma Financial Information).

The income reported for the 2006 period is not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2005.

Note 2 Common Stock

On January 20, 2005, the Company announced that its Board of Directors had authorized the repurchase of up to 250,000 shares of the Company's common stock or approximately 2.5% 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 March 31, 2006 the Company had repurchased 209,123 shares under the new repurchase plan at an average price of \$17.27.

Note 3 Stock Options

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. The Company believes that such awards align the interests of its employees with those of its shareholders. Only incentive stock options may be granted under the plan. The option price of each option grant is determined 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.

In addition, options to acquire 40,630 FNB shares were converted into options to acquire an aggregate of 95,479 common shares of the Company at a purchase price of \$3.80 per share as a result of the FNB acquisition. As of March 31, 2006, all options converted as a result of the FNB acquisition had been exercised. All shares issued by the Company for the exercise of stock options are from Treasury.

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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. As a result, \$10,000 in compensation cost, net of tax, is included in the Company's financial statements for the current year. The unrecognized compensation cost, net of tax, to be amortized over a weighted average vesting period of 4.4 years is \$138,000, which is comprised of \$26,000 for 16,500 options granted in 2002 and \$112,000 for 42,000 options granted in 2005.

The weighted average fair market value per share was \$2.77 for options granted in 2002 and \$4.41 for options granted in 2005. The fair market value was estimated using the Black-Scholes option pricing model and the following assumptions: quarterly dividends of \$0.07 in 2002 and \$0.12 in 2005, risk-free interest rate of 1.58% in 2002 and 4.20% in 2005, volatility of 37.73% in 2002 and 25.81% in 2005, and an expected life of 10 years for both years, the options' maximum term. Volatility is based on the actual volatility of the Company's stock during the quarter in which

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the options were granted. The risk free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve at the time of the option grant.

The following table summarizes the status of the Company's non-vested options as of March 31, 2006.

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2005	58,500	\$3.95
Granted in 2006	-	-
Vested in 2006	-	-
Forfeited in 2006	-	-
Non-vested at March 31, 2006	58,500	\$3.95

During 2006, 39,750 options were exercised, with total proceeds paid to the Company of \$124,000. The excess of the fair value of the stock issued upon option exercise over the exercise price was \$559,000. The Company recognized a tax benefit of \$55,000 on option exercises during 2006. A summary of the status of the Company's Stock Option Plan as of March 31, 2006, and changes during the three months then ended, is presented below.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2005	205,750	\$7.61		
Granted in 2006	-	-		
Vested in 2006	-	-		
Exercised in 2006	(39,750)	3.13		
Forfeited in 2006	-	-		
Outstanding at March 31, 2006	166,000	\$8.69	4.3	\$1,484
Exercisable at March 31, 2006	107,500	\$4.95	2.3	\$1,349

In prior years, the Company applied Accounting Principles Board Opinion No. 25 and related interpretations in accounting for the stock option plan(s). Accordingly, no compensation cost was recognized in prior years. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123 in prior years.

<i>In thousands of dollars</i>	For the quarters ended March 31,	
	2006	2005
Net income		
As reported	\$2,978	\$2,995
Value of option grants, net of tax	-	120
Pro forma	\$2,978	\$2,875
Basic earnings per share		
As reported	\$0.30	\$0.32
Value of option grants, net of tax	-	0.01
Pro forma	\$0.30	\$0.31
Diluted earnings per share		
As reported	\$0.30	\$0.31
Value of option grants, net of tax	-	0.01
Pro forma	\$0.30	\$0.30

Note 4 Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (EPS) for the three months ended March 31, 2006 and 2005:

<i>In thousands, except for number of shares and per share data</i>	Income (Numerator)	Shares (Denominator)	Per-Share Amount
For the three months ended March 31, 2006			
Net income as reported	\$2,978		
Basic EPS: Income available to common shareholders	\$2,978	9,857,326	\$0.30
Effect of dilutive securities: incentive stock options		84,829	
Diluted EPS: Income available to common shareholders plus assumed conversions	\$2,978	9,942,155	\$0.30
For the three months ended March 31, 2005			
Net income as reported	\$2,995		
Basic EPS: Income available to common shareholders	\$2,995	9,474,770	\$0.32
Effect of dilutive securities: incentive stock options		146,222	
Diluted EPS: Income available to common shareholders plus assumed conversions	\$2,995	9,620,992	\$0.31

All earnings per share calculations have been made using the weighted average number of shares outstanding during the period. All of the dilutive securities are incentive stock options granted to certain key members of Management. The dilutive number of shares has been calculated using the treasury method, assuming that all granted options were exercisable at the end of each period.

Note 5 Postretirement Benefit Plans

The Bank sponsors postretirement benefit plans which provide certain life insurance and health insurance benefits for certain retir