

PARK NATIONAL CORP /OH/  
Form 10-Q  
May 04, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR  
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-13006

Park National Corporation  
(Exact name of registrant as specified in its charter)

Ohio  
(State or other jurisdiction of  
incorporation or organization)

31-1179518  
(I.R.S. Employer Identification No.)

50 North Third Street, Newark, Ohio 43055  
(Address of principal executive offices) (Zip Code)

(740) 349-8451  
(Registrant's telephone number, including area code)

N/A  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes            No     

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes            No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if smaller reporting company)

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

Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
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15,398,919 Common shares, no par value per share, outstanding at May 2, 2011.

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PARK NATIONAL CORPORATION

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PARK NATIONAL CORPORATION  
Consolidated Condensed Balance Sheets (Unaudited)  
(in thousands, except share and per share data)

	March 31, 2011	December 31, 2010
<b>Assets:</b>		
Cash and due from banks	\$ 111,472	\$ 109,058
Money market instruments	22,775	24,722
Cash and cash equivalents	134,247	133,780
<b>Investment securities</b>		
Securities available-for-sale, at fair value (amortized cost of \$1,349,431 and \$1,274,258 at March 31, 2011 and December 31, 2010)	1,362,893	1,297,522
Securities held-to-maturity, at amortized cost (fair value of \$625,334 and \$686,114 at March 31, 2011 and December 31, 2010)	614,064	673,570
Other investment securities	68,699	68,699
Total investment securities	2,045,656	2,039,791
<b>Loans</b>		
Loans	4,750,975	4,732,685
Allowance for loan losses	(126,859 )	(121,397 )
Net loans	4,624,116	4,611,288
<b>Bank owned life insurance</b>		
Bank owned life insurance	150,683	146,450
<b>Goodwill and other intangible assets</b>		
Goodwill and other intangible assets	77,708	78,377
<b>Bank premises and equipment, net</b>		
Bank premises and equipment, net	69,673	69,567
<b>Other real estate owned</b>		
Other real estate owned	47,133	44,325
<b>Accrued interest receivable</b>		
Accrued interest receivable	25,083	24,137
<b>Mortgage loan servicing rights</b>		
Mortgage loan servicing rights	10,365	10,488
<b>Other</b>		
Other	153,739	140,174
<b>Total assets</b>	<b>\$ 7,338,403</b>	<b>\$ 7,298,377</b>
<b>Liabilities and Stockholders' Equity:</b>		
<b>Deposits:</b>		
Noninterest bearing	\$ 955,005	\$ 937,719
Interest bearing	4,359,673	4,157,701
Total deposits	5,314,678	5,095,420
<b>Short-term borrowings</b>		
Short-term borrowings	316,719	663,669
<b>Long-term debt</b>		
Long-term debt	786,709	636,733
<b>Subordinated debentures and notes</b>		
Subordinated debentures and notes	75,250	75,250
<b>Accrued interest payable</b>		
Accrued interest payable	6,255	6,123
<b>Other</b>		
Other	93,554	75,358
Total liabilities	6,593,165	6,552,553
<b>COMMITMENTS AND CONTINGENCIES</b>		

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Stockholders' equity:

Preferred stock (200,000 shares authorized; 100,000 shares issued with \$1,000 per share liquidation preference)	97,504	97,290
Common stock (No par value; 20,000,000 shares authorized; 16,151,052 shares issued at March 31, 2011 and 16,151,062 shares issued at December 31, 2010)	301,203	301,204
Common stock warrants	4,473	4,473
Retained earnings	427,897	422,458
Treasury stock (752,129 shares at March 31, 2011 and 752,128 shares at December 31, 2010)	(77,733 )	(77,733 )
Accumulated other comprehensive (loss), net of taxes	(8,106 )	(1,868 )
Total stockholders' equity	745,238	745,824
Total liabilities and stockholders' equity	\$7,338,403	\$ 7,298,377

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

## PARK NATIONAL CORPORATION

## Consolidated Condensed Statements of Income (Unaudited)

(in thousands, except share and per share data)

	Three Months Ended March 31,	
	2011	2010
<b>Interest and dividend income:</b>		
Interest and fees on loans	\$65,454	\$66,441
<b>Interest and dividends on:</b>		
Obligations of U.S. Government, its agencies and other securities	19,053	20,475
Obligations of states and political subdivisions	149	217
Other interest income	6	69
Total interest and dividend income	84,662	87,202
<b>Interest expense:</b>		
<b>Interest on deposits:</b>		
Demand and savings deposits	991	1,775
Time deposits	6,734	10,650
<b>Interest on borrowings:</b>		
Short-term borrowings	267	344
Long-term debt	7,357	7,053
Total interest expense	15,349	19,822
Net interest income	69,313	67,380
Provision for loan losses	13,500	16,550
Net interest income after provision for loan losses	55,813	50,830
<b>Other income:</b>		
Income from fiduciary activities	3,722	3,422
Service charges on deposit accounts	4,245	4,746
Other service income	2,301	2,982
Checkcard fee income	2,976	2,444
Bank owned life insurance income	1,229	1,216
ATM fees	654	765
OREO devaluations	(4,394 )	(1,145 )
Other	2,438	2,280
Total other income	13,171	16,710
Gain on sale of securities	6,635	8,304

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## PARK NATIONAL CORPORATION

## Consolidated Condensed Statements of Income (Unaudited)

(Continued)

(in thousands, except share and per share data)

	Three Months Ended March 31,	
	2011	2010
<b>Other expense:</b>		
Salaries and employee benefits	\$25,064	\$25,171
Occupancy expense	3,000	3,117
Furniture and equipment expense	2,657	2,632
Data processing fees	1,253	1,593
Professional fees and services	4,874	4,856
Amortization of intangibles	669	936
Marketing	623	902
Insurance	2,269	2,198
Communication	1,556	1,769
State taxes	457	845
Other expense	3,924	3,871
<b>Total other expense</b>	<b>46,346</b>	<b>47,890</b>
<b>Income before income taxes</b>	<b>29,273</b>	<b>27,954</b>
<b>Income taxes</b>	<b>7,895</b>	<b>7,175</b>
<b>Net income</b>	<b>\$21,378</b>	<b>\$20,779</b>
<b>Preferred stock dividends and accretion</b>	<b>1,464</b>	<b>1,452</b>
<b>Net income available to common shareholders</b>	<b>\$19,914</b>	<b>\$19,327</b>
<b>Per Common Share:</b>		
<b>Net income available to common shareholders</b>		
Basic	\$1.29	\$1.30
Diluted	\$1.29	\$1.30
<b>Weighted average common shares outstanding</b>		
Basic	15,398,930	14,882,774
Diluted	15,403,420	14,882,774
<b>Cash dividends declared</b>	<b>\$0.94</b>	<b>\$0.94</b>

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS



## PARK NATIONAL CORPORATION

## Consolidated Condensed Statements of Changes in Stockholders' Equity (Unaudited)

(in thousands, except per share data)

Three Months ended March 31, 2011 and 2010	Preferred Stock	Common Stock	Retained Earnings	Treasury Stock at Cost	Accumulated Other Comprehensive Income/(Loss)	Comprehensive Income
Balance at December 31, 2009	\$ 96,483	\$ 306,569	\$ 423,872	\$ (125,321 )	\$ 15,661	
Net Income			20,779			\$ 20,779
Other comprehensive income, net of tax:						
Unrealized net holding loss on cash flow hedge, net of income taxes of \$(60)					(111 )	(111 )
Unrealized net holding loss on securities available-for-sale, net of income taxes of \$(966)					(1,793 )	(1,793 )
Total comprehensive income						\$ 18,875
Cash dividends on common stock at \$0.94 per share			(13,990 )			
Cash payment for fractional shares in dividend reinvestment plan		(1 )				
Accretion of discount on preferred stock	202		(202 )			
Preferred stock dividends			(1,250 )			
Balance at March 31, 2010	\$ 96,685	\$ 306,568	\$ 429,209	\$ (125,321 )	\$ 13,757	
Balance at December 31, 2010	\$ 97,290	\$ 305,677	\$ 422,458	\$ (77,733 )	\$ (1,868 )	
Net Income			21,378			\$ 21,378
Other comprehensive loss, net of tax:						
Unrealized net holding gain on cash flow hedge, net of income taxes of \$71					133	133
Unrealized net holding (loss) on securities					(6,371 )	(6,371 )

available-for-sale, net of income taxes of \$(3,431)					
Total comprehensive income					\$ 15,140
Cash dividends on common stock at \$0.94 per share			(14,475 )		
Cash payment for fractional shares in dividend reinvestment plan		(1 )			
Accretion of discount on preferred stock	214		(214 )		
Preferred stock dividends			(1,250 )		
Balance at March 31, 2011	\$ 97,504	\$ 305,676	\$ 427,897	\$ (77,733 )	\$ (8,106 )

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

PARK NATIONAL CORPORATION  
Consolidated Condensed Statements of Cash Flows (Unaudited)  
(in thousands)

	Three Months Ended March 31,	
	2011	2010
<b>Operating activities:</b>		
Net income	\$21,378	\$20,779
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, accretion and amortization	2,784	2,205
Provision for loan losses	13,500	16,550
Other-than-temporary impairment on investment securities	-	-
Amortization of core deposit intangibles	669	936
Realized net investment security gains	(6,635 )	(8,304 )
OREO devaluations	4,394	1,145
Changes in assets and liabilities:		
(Increase) in other assets	(21,217 )	(10,678 )
(Decrease) in other liabilities	(6,539 )	(4,079 )
Net cash provided by operating activities	\$8,334	\$18,554
<b>Investing activities:</b>		
Proceeds from sales of available-for-sale securities	\$113,105	\$284,031
Proceeds from maturity of:		
Available-for-sale securities	75,071	269,462
Held-to-maturity securities	59,506	22,478
Purchases of:		
Available-for-sale securities	(231,714 )	(533,677 )
Held-to-maturity securities	-	(2,205 )
Net (increase) decrease in loans	(25,403 )	30,349
Purchases of bank owned life insurance, net	(3,000 )	(4,562 )
Purchases of premises and equipment, net	(1,990 )	(1,862 )
Net cash (used in) provided by investing activities	\$(14,425 )	\$64,014

Continued

PARK NATIONAL CORPORATION  
Consolidated Condensed Statements of Cash Flows (Unaudited)  
(Continued)  
(in thousands)

	Three Months Ended March 31,	
	2011	2010
<b>Financing activities:</b>		
Net increase in deposits	\$219,258	\$80,806
Net (decrease) in short-term borrowings	(346,950 )	(57,144 )
Proceeds from issuance of long-term debt	150,000	-
Repayment of long-term debt	(24 )	(20 )
Cash payment for fractional shares in dividend reinvestment plan	(1 )	(1 )
Cash dividends paid on common and preferred stock	(15,725 )	(15,240 )
Net cash provided by financing activities	\$6,558	\$8,401
Increase in cash and cash equivalents	467	90,969
Cash and cash equivalents at beginning of year	133,780	159,091
Cash and cash equivalents at end of period	\$134,247	\$250,060
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for:		
Interest	\$15,217	\$20,494
Income taxes	\$-	\$-
<b>Non cash activities:</b>		
Securities acquired through payable	\$25,000	\$112,450

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

PARK NATIONAL CORPORATION  
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

The accompanying unaudited consolidated condensed financial statements included in this report have been prepared for Park National Corporation (the “Registrant”, “Corporation”, “Company”, or “Park”) and its subsidiaries. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results of operations for the interim periods included herein have been made. The results of operations for the three month period ended March 31, 2011 are not necessarily indicative of the operating results to be anticipated for the fiscal year ending December 31, 2011.

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and footnotes necessary for a fair presentation of the condensed balance sheets, condensed statements of income, condensed statements of changes in stockholders’ equity and condensed statements of cash flows in conformity with U.S. generally accepted accounting principles (“GAAP”). These financial statements should be read in conjunction with the consolidated financial statements incorporated by reference in the Annual Report on Form 10-K of Park for the fiscal year ended December 31, 2010 from Park’s 2010 Annual Report to Shareholders (“2010 Annual Report”).

Park’s significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in Park’s 2010 Annual Report. For interim reporting purposes, Park follows the same basic accounting policies, as updated by the information contained in this report, and considers each interim period an integral part of an annual period. Management has evaluated events occurring subsequent to the balance sheet date, determining no events require additional disclosure in these consolidated condensed financial statements.

Note 2 – Recent Accounting Pronouncements

Adoption of New Accounting Pronouncements:

**Improving Disclosures About Fair Value Measurements:** In January 2010, the FASB issued an amendment to Fair Value Measurements and Disclosures, Topic 820, Improving Disclosures About Fair Value Measurements. This amendment requires new disclosures regarding significant transfers in and out of Level 1 and 2 fair value measurements and the reasons for the transfers. This amendment also requires that a reporting entity present separately information about purchases, sales, issuances and settlements, on a gross basis rather than a net basis for activity in Level 3 fair value measurements using significant unobservable inputs. This amendment also clarifies existing disclosures on the level of disaggregation, in that the reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities, and that a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for Level 2 and 3. The new disclosures and clarifications of existing disclosures for ASC 820 are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of ASC 820 did not have a material effect on the Company’s consolidated financial statements.

**Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses:** In July 2010, FASB issued Accounting Standards Update 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20), to address concerns about the sufficiency, transparency, and

robustness of credit risk disclosures for finance receivables and the related allowance for credit losses. This ASU requires new and enhanced disclosures at disaggregated levels, specifically defined as “portfolio segments” and “classes”. Among other things, the expanded disclosures include roll-forward schedules of the allowance for credit losses and information regarding the credit quality of receivables as of the end of a reporting period. New and enhanced disclosures are required for interim and annual periods ending after December 15, 2010, although the disclosures of reporting period activity are required for interim and annual periods beginning after December 15, 2010. The adoption of the new guidance impacted interim and annual disclosures included in the Company’s consolidated financial statements.

No. 2011-01 - Receivables (Topic 310) Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2001-20: In January 2011, FASB issued Accounting Standards Update 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 (ASU 2011-01). ASU 2011-01 was issued as a result of concerns raised from stakeholders that the introduction of new disclosure requirements (paragraphs 310-10-50-31 through 50-34 of the FASB Accounting Standards Codification) about troubled debt restructurings in one reporting period followed by a change in what constitutes a troubled debt restructuring shortly thereafter would be burdensome for preparers and may not provide financial statement users with useful information.

No. 2011-02 – Receivables (Topic 310) A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring: In April 2011, FASB issued Accounting Standards Update 2011-02, A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring (ASU 2011-02). The ASU provides additional guidance to creditors for evaluating whether a modification or restructuring of a receivable is a troubled debt restructuring (“TDR”). The new guidance requires creditors to evaluate modifications and restructurings of receivables using a more principles-based approach, which may result in more modifications and restructurings being considered TDRs. Additionally, creditors will be required to provide additional disclosures about their TDR activities in accordance with the requirements of ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses which was deferred by ASU 2011-01 Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 (ASU 2011-01). The new guidance will be effective for the first interim or annual period beginning on or after June 15, 2011, with retrospective application required to the beginning of the annual period of adoption. Disclosures requirements will be effective for the first interim and annual period beginning on or after June 15, 2011. Management is currently working through the guidance to determine the impact, if any, to the consolidated financial statements.

### Note 3 – Goodwill and Intangible Assets

The following table shows the activity in goodwill and core deposit intangibles for the first three months of 2011.

(in thousands)	Core Deposit		
	Goodwill	Intangibles	Total
December 31, 2010	\$ 72,334	\$ 6,043	\$ 78,377
Amortization	-	669	669
March 31, 2011	\$ 72,334	\$ 5,374	\$ 77,708

The core deposit intangibles are being amortized to expense principally on the straight-line method, over periods ranging from six to ten years. Management expects that the core deposit intangibles amortization expense will be approximately \$669,000 for the second, third and fourth quarters of 2011.

Core deposit intangibles amortization expense is projected to be as follows for each of the following years:

(in thousands)	Annual Amortization
Remainder of 2011	\$ 2,007
2012	2,677
2013	690
Total	\$ 5,374



## Note 4 – Loans

The composition of the loan portfolio, by class of loan, as of March 31, 2011 and December 31, 2010 was as follows:

	March 31, 2011			December 31, 2010		
	Loan	Accrued	Recorded	Loan	Accrued	Recorded
	Balance	Interest	Investment	Balance	Interest	Investment
		Receivable			Receivable	Investment
(In thousands)						
Commercial, financial and agricultural *	\$727,993	\$2,967	\$730,960	\$737,902	\$2,886	\$740,788
Commercial real estate *	1,254,636	4,956	1,259,592	1,226,616	4,804	1,231,420
Construction real estate:						
Vision commercial land and development *	161,140	290				