

PARK NATIONAL CORP /OH/  
Form 10-Q  
August 03, 2012

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

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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 31-1179518  
(State or other jurisdiction of incorporation or organization) (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 a 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  No

15,405,893 Common shares, no par value per share, outstanding at August 2, 2012.

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PARK NATIONAL CORPORATION

CONTENTS

|   | Page             |
|---|------------------|
| <b>PART I. FINANCIAL INFORMATION</b>  |                  |
| Item 1. Financial Statements  |                  |
| <u>Consolidated Condensed Balance Sheets as of June 30, 2012 (unaudited) and December 31, 2011</u>  | <u>3</u>         |
| <u>Consolidated Condensed Statements of Income for the three months and six months ended June 30, 2012 and 2011 (unaudited)</u>               | <u>4</u>         |
| <u>Consolidated Condensed Statements of Comprehensive Income for the three months and six months ended June 30, 2012 and 2011 (unaudited)</u> | <u>6</u>         |
| <u>Consolidated Condensed Statements of Changes in Stockholders' Equity for the six months ended June 30, 2012 and 2011 (unaudited)</u>       | <u>7</u>         |
| <u>Consolidated Condensed Statements of Cash Flows for the six months ended June 30, 2012 and 2011 (unaudited)</u>                            | <u>8</u>         |
| <u>Notes to Unaudited Consolidated Condensed Financial Statements</u>   | <u>10</u>        |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>  | <u>41</u>        |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>   | <u>66</u>        |
| <u>Item 4. Controls and Procedures</u>  | <u>67</u>        |
| <b><u>PART II. OTHER INFORMATION</u></b>  | <b><u>68</u></b> |
| <u>Item 1. Legal Proceedings</u>  | <u>68</u>        |
| <u>Item 1A. Risk Factors</u>  | <u>68</u>        |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>  | <u>68</u>        |
| <u>Item 3. Defaults Upon Senior Securities</u>  | <u>69</u>        |
| <u>Item 4. Mine Safety Disclosures</u>  | <u>69</u>        |
| <u>Item 5. Other Information</u>  | <u>69</u>        |
| <u>Item 6. Exhibits</u>   | <u>69</u>        |
| <b><u>SIGNATURES</u></b>  | <b><u>73</u></b> |



Table of Contents

## PARK NATIONAL CORPORATION

## Consolidated Condensed Balance Sheets (Unaudited)

(in thousands, except share and per share data)

|   | June 30,<br>2012 | December 31,<br>2011 |
|---|------------------|----------------------|
| Assets:   |                  |                      |
| Cash and due from banks   | \$132,561        | \$137,770            |
| Money market instruments  | 75,501           | 19,716               |
| Cash and cash equivalents   | 208,062          | 157,486              |
| Investment securities   |                  |                      |
| Securities available-for-sale, at fair value (amortized cost of \$846,719 and \$801,147 at June 30, 2012 and December 31, 2011)                                     | 867,147          | 820,645              |
| Securities held-to-maturity, at amortized cost (fair value of \$768,076 and \$834,574 at June 30, 2012 and December 31, 2011)                                       | 755,222          | 820,224              |
| Other investment securities   | 66,285           | 67,604               |
| Total investment securities   | 1,688,654        | 1,708,473            |
| Loans   | 4,386,851        | 4,317,099            |
| Allowance for loan losses   | (58,696)         | (68,444)             |
| Net loans   | 4,328,155        | 4,248,655            |
| Bank owned life insurance   | 158,696          | 154,567              |
| Goodwill and other intangible assets  | 72,949           | 74,843               |
| Bank premises and equipment, net  | 52,261           | 53,741               |
| Other real estate owned   | 38,424           | 42,272               |
| Accrued interest receivable   | 20,219           | 19,697               |
| Mortgage loan servicing rights  | 8,809            | 9,301                |
| Other   | 129,345          | 120,748              |
| Assets held for sale  | —                | 382,462              |
| Total assets  | \$6,705,574      | \$6,972,245          |
| Liabilities and Stockholders' Equity:   |                  |                      |
| Deposits:   |                  |                      |
| Noninterest bearing   | \$1,034,952      | \$995,733            |
| Interest bearing  | 3,788,023        | 3,469,381            |
| Total deposits  | 4,822,975        | 4,465,114            |
| Short-term borrowings   | 240,602          | 263,594              |
| Long-term debt  | 806,287          | 823,182              |
| Subordinated debentures and notes   | 105,250          | 75,250               |
| Accrued interest payable  | 4,660            | 4,916                |
| Other   | 65,177           | 61,639               |
| Liabilities held for sale   | —                | 536,186              |
| Total liabilities   | 6,044,951        | 6,229,881            |
| COMMITMENTS AND CONTINGENCIES   |                  |                      |
| Stockholders' equity:   |                  |                      |
| Preferred stock (200,000 shares authorized; 0 shares at June 30, 2012 and 100,000 shares at December 31, 2011 issued with \$1,000 per share liquidation preference) | —                | 98,146               |
| Common stock (No par value; 20,000,000 shares authorized; 16,151,007 shares issued at June 30, 2012 and 16,151,021 shares issued at December 31, 2011)              | 302,655          | 301,202              |
| Common stock warrants   | —                | 4,297                |

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|  |             |             |   |
|--|-------------|-------------|---|
| Retained earnings  | 442,531     | 424,557     |   |
| Treasury stock (745,109 shares at June 30, 2012 and at December 31,2011) | (77,007     | ) (77,007   | ) |
| Accumulated other comprehensive (loss), net of taxes                     | (7,556      | ) (8,831    | ) |
| Total stockholders' equity   | 660,623     | 742,364     |   |
| Total liabilities and stockholders' equity                               | \$6,705,574 | \$6,972,245 |   |

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

3

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Table of Contents

## PARK NATIONAL CORPORATION

## Consolidated Condensed Statements of Income (Unaudited)

(in thousands, except share and per share data)

|   | Three Months Ended |          | Six Months Ended |           |
|---|--------------------|----------|------------------|-----------|
|   | June 30,           | 2011     | June 30,         | 2011      |
|   | 2012               |          | 2012             |           |
| Interest and dividend income:                                     |                    |          |                  |           |
| Interest and fees on loans  | \$57,593           | \$65,862 | \$118,698        | \$131,316 |
| Interest and dividends on:  |                    |          |                  |           |
| Obligations of U.S. Government, its agencies and other securities | 13,794             | 18,960   | 27,378           | 38,013    |
| Obligations of states and political subdivisions                  | 42                 | 92       | 88               | 241       |
| Other interest income   | 57                 | 8        | 160              | 14        |
| Total interest and dividend income                                | 71,486             | 84,922   | 146,324          | 169,584   |
| Interest expense:   |                    |          |                  |           |
| Interest on deposits:   |                    |          |                  |           |
| Demand and savings deposits                                       | 602                | 951      | 1,356            | 1,942     |
| Time deposits   | 4,121              | 6,200    | 8,760            | 12,934    |
| Interest on borrowings:   |                    |          |                  |           |
| Short-term borrowings   | 163                | 193      | 338              | 460       |
| Long-term debt  | 7,920              | 7,556    | 15,462           | 14,913    |
| Total interest expense  | 12,806             | 14,900   | 25,916           | 30,249    |
| Net interest income   | 58,680             | 70,022   | 120,408          | 139,335   |
| Provision for loan losses   | 5,238              | 12,516   | 13,576           | 26,616    |
| Net interest income after provision for loan losses               | 53,442             | 57,506   | 106,832          | 112,719   |
| Other income:   |                    |          |                  |           |
| Income from fiduciary activities                                  | 4,044              | 3,929    | 7,872            | 7,651     |
| Service charges on deposit accounts                               | 4,154              | 4,525    | 8,225            | 8,770     |
| Other service income  | 3,417              | 2,734    | 6,151            | 5,035     |
| Checkcard fee income  | 3,180              | 3,251    | 6,352            | 6,227     |
| Bank owned life insurance income                                  | 1,184              | 1,228    | 2,386            | 2,457     |
| ATM fees  | 536                | 682      | 1,144            | 1,336     |
| OREO devaluations   | (2,648)            | ) (3,355 | ) (4,007         | ) (5,890  |
| Gain/(loss) on the sale of OREO, net                              | 2,203              | 330      | 3,248            | 482       |
| Gain on sale of the Vision business                               | —                  | —        | 22,167           | —         |
| Other   | 1,438              | 1,814    | 3,590            | 4,100     |
| Total other income  | 17,508             | 15,138   | 57,128           | 30,168    |

|                            |   |        |   |        |
|----------------------------|---|--------|---|--------|
| Gain on sale of securities | — | 15,362 | — | 21,997 |
|----------------------------|---|--------|---|--------|

4

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Table of Contents

## PARK NATIONAL CORPORATION

## Consolidated Condensed Statements of Income (Unaudited) (Continued)

(in thousands, except share and per share data)

|   | Three Months Ended |            | Six Months Ended |            |
|---|--------------------|------------|------------------|------------|
|   | June 30,           |            | June 30,         |            |
|   | 2012               | 2011       | 2012             | 2011       |
| Other expense:                              |                    |            |                  |            |
| Salaries and employee benefits              | \$22,813           | \$25,253   | \$47,636         | \$50,317   |
| Occupancy expense                           | 2,249              | 2,764      | 4,919            | 5,764      |
| Furniture and equipment expense             | 2,727              | 2,785      | 5,348            | 5,442      |
| Data processing fees                        | 899                | 1,135      | 2,099            | 2,388      |
| Professional fees and services              | 5,800              | 5,320      | 11,381           | 10,194     |
| Amortization of intangibles                 | 140                | 669        | 1,894            | 1,338      |
| Marketing                                   | 705                | 728        | 1,548            | 1,351      |
| Insurance                                   | 1,400              | 2,345      | 2,890            | 4,614      |
| Communication                               | 1,494              | 1,485      | 3,031            | 3,041      |
| Loan put provision                          | 2,701              | —          | 3,363            | —          |
| Other expense                               | 4,876              | 4,523      | 10,165           | 8,904      |
| Total other expense                         | 45,804             | 47,007     | 94,274           | 93,353     |
| Income before income taxes                  | 25,146             | 40,999     | 69,686           | 71,531     |
| Income taxes                                | 6,260              | 12,046     | 19,325           | 20,382     |
| Net income                                  | \$18,886           | \$28,953   | \$50,361         | \$51,149   |
| Preferred stock dividends and accretion     | 1,948              | 1,464      | 3,425            | 2,928      |
| Net income available to common shareholders | \$16,938           | \$27,489   | \$46,936         | \$48,221   |
| Per Common Share:                           |                    |            |                  |            |
| Net income available to common shareholders |                    |            |                  |            |
| Basic                                       | 1.10               | 1.79       | 3.05             | 3.13       |
| Diluted                                     | 1.10               | 1.79       | 3.05             | 3.13       |
| Weighted average common shares outstanding  |                    |            |                  |            |
| Basic                                       | 15,405,902         | 15,398,919 | 15,405,906       | 15,398,925 |
| Diluted                                     | 15,405,902         | 15,399,593 | 15,409,690       | 15,401,506 |
| Cash dividends declared                     | 0.94               | 0.94       | 1.88             | 1.88       |

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS



Table of Contents

## PARK NATIONAL CORPORATION

## Consolidated Condensed Statements of Comprehensive Income (Unaudited)

(in thousands, except share and per share data)

|  | Three Months Ended<br>June 30, |             | Six Months Ended<br>June 30, |             |
|--|--------------------------------|-------------|------------------------------|-------------|
|  | 2012                           | 2011        | 2012                         | 2011        |
| Net income   | \$ 18,886                      | \$ 28,953   | \$ 50,361                    | \$ 51,149   |
| Other comprehensive income (loss), net of tax:   |                                |             |                              |             |
| Change in funded status of pension plan, net of income taxes of \$222  | —                              | —           | 412                          | —           |
| Unrealized net holding gain on cash flow hedge, net of income taxes of \$79 and \$33 for the three months ended June 30, 2012 and 2011, and \$139 and \$104 for the six months ended June 30, 2012 and 2011.   | 146                            | 60          | 259                          | 193         |
| Unrealized net holding gain (loss) on securities available-for-sale, net of income taxes (benefit) of \$1,511 and \$(1,146) for the three months ended June 30, 2012 and 2011, and 2,806 of \$326 and \$(4,578) for the six months ended June 30, 2012 and 2011. |                                | (2,129 )    | 604                          | (8,500 )    |
| Other comprehensive income (loss)  | \$ 2,952                       | \$ (2,069 ) | \$ 1,275                     | \$ (8,307 ) |
| Comprehensive income   | \$ 21,838                      | \$ 26,884   | \$ 51,636                    | \$ 42,842   |

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Table of Contents

## PARK NATIONAL CORPORATION

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

(in thousands, except per share data)

| Six Months ended June 30, 2012 and 2011  | Preferred Stock | Common Stock | Retained Earnings | Treasury Stock at Cost | Accumulated Other Comprehensive Income (loss) |
|--|-----------------|--------------|-------------------|------------------------|---|
| Balance at December 31, 2010   | \$97,290        | \$305,677    | \$406,342         | \$(77,733)             | \$(1,868)                                     |
| Net Income   |                 |              | 51,149            |                        |   |
| Other comprehensive income (loss), net of tax:   |                 |              |                   |                        |   |
| Unrealized net holding gain on cash flow hedge, net of income taxes of \$104                     |                 |              |                   |                        | 193   |
| Unrealized net holding (loss) on securities available-for-sale, net of income taxes of \$(4,578) |                 |              |                   |                        | (8,500)                                       |
| Cash dividends on common stock at \$1.88 per share   |                 |              | (28,951)          |                        |   |
| Cash payment for fractional shares in dividend reinvestment plan                                 |                 | (1)          |                   |                        |   |
| Common stock warrants canceled   |                 | (67)         | 67                |                        |   |
| Accretion of discount on preferred stock   | 428             |              | (428)             |                        |   |
| Preferred stock dividends  |                 |              | (2,500)           |                        |   |
| Balance at June 30, 2011   | \$97,718        | \$305,609    | \$425,679         | \$(77,733)             | \$(10,175)                                    |
| Balance at December 31, 2011   | \$98,146        | \$305,499    | \$424,557         | \$(77,007)             | \$(8,831)                                     |
| Net Income   |                 |              | 50,361            |                        |   |
| Other comprehensive income (loss), net of tax:   |                 |              |                   |                        |   |
| Change in funded status of pension plan, net of income taxes of \$222                            |                 |              |                   |                        | 412   |
| Unrealized net holding gain on cash flow hedge, net of income taxes of \$139                     |                 |              |                   |                        | 259   |
| Unrealized net holding gain on securities available-for-sale, net of income tax benefit of \$326 |                 |              |                   |                        | 604   |
| Cash dividends on common stock at \$1.88 per share   |                 |              | (28,962)          |                        |   |
| Cash payment for fractional shares in dividend reinvestment plan                                 |                 | (1)          |                   |                        |   |
| Common stock warrant repurchased   |                 | (2,843)      |                   |                        |   |
| Preferred stock repurchased  | (100,000)       |              |                   |                        |   |
| Accretion of discount on preferred stock   | 1,854           |              | (1,854)           |                        |   |
| Preferred stock dividends  |                 |              | (1,571)           |                        |   |
| Balance at June 30, 2012   | \$—             | \$302,655    | \$442,531         | \$(77,007)             | \$(7,556)                                     |

SEE ACCOMPANYING NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

7

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Table of Contents

## PARK NATIONAL CORPORATION

## Consolidated Condensed Statements of Cash Flows (Unaudited)

(in thousands)

|   | Six Months Ended |           |
|---|------------------|-----------|
|   | June 30,         |           |
|   | 2012             | 2011      |
| Operating activities:   |                  |           |
| Net income  | \$50,361         | \$51,149  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |           |
| Depreciation, accretion and amortization  | 3,827            | 5,600     |
| Provision for loan losses   | 13,576           | 26,616    |
| Loan put provision  | 3,363            | —         |
| Other-than-temporary impairment on investment securities                          | 54               | —         |
| Amortization of core deposit intangibles  | 1,894            | 1,338     |
| Realized net investment security gains  | —                | (21,997)  |
| OREO devaluations   | 4,007            | 5,890     |
| Bank owned life insurance income  | (2,386)          | (2,457)   |
| Changes in assets and liabilities:  |                  |           |
| (Increase) in other assets  | (11,040)         | (35,745)  |
| (Decrease) in other liabilities   | (566)            | (1,666)   |
| Net cash provided by operating activities   | \$63,090         | \$28,728  |
| Investing activities:   |                  |           |
| Proceeds from sales of available-for-sale securities                              | \$—              | \$319,504 |
| Proceeds from sales of Federal Home Loan Bank stock                               | 1,319            | 541       |
| Proceeds from maturity of:  |                  |           |
| Available-for-sale securities   | 464,653          | 199,940   |
| Held-to-maturity securities   | 303,595          | 87,434    |
| Purchases of:   |                  |           |
| Available-for-sale securities   | (509,998)        | (330,839) |
| Held-to-maturity securities   | (238,593)        | (75,951)  |
| Net (increase) in loans   | (90,628)         | (24,523)  |
| Sale of assets/liabilities related to Vision Bank                                 | (153,724)        | —         |
| Purchases of bank owned life insurance  | (2,500)          | (3,000)   |
| Purchases of premises and equipment, net  | (1,979)          | (4,055)   |
| Net cash (used in) provided by investing activities                               | \$(227,855)      | \$169,051 |
| Financing activities:   |                  |           |
| Net increase in deposits  | \$357,861        | \$162,097 |
| Net (decrease) in short-term borrowings   | (22,992)         | (429,557) |
| Proceeds from issuance of long-term debt  | 30,000           | 200,000   |

|                             |         |           |   |
|-----------------------------|---------|-----------|---|
| Repayment of long-term debt | (15,500 | ) (15,531 | ) |
|-----------------------------|---------|-----------|---|

8

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Table of Contents

|  |           |             |   |
|--|-----------|-------------|---|
| Cash payment for fractional shares in dividend reinvestment plan       | (1        | ) (1        | ) |
| Cash payment for repurchase of common stock warrant from U.S. Treasury | (2,843    | ) —         |   |
| Repurchase of preferred stock from U.S. Treasury                       | (100,000  | ) —         |   |
| Cash dividends paid on common stock and preferred stock                | (31,184   | ) (31,451   | ) |
| Net cash provided by (used in) financing activities                    | \$215,341 | \$ (114,443 | ) |
| Increase in cash and cash equivalents                                  | 50,576    | 83,336      |   |
| Cash and cash equivalents at beginning of year                         | 157,486   | 133,780     |   |
| Cash and cash equivalents at end of period                             | \$208,062 | \$217,116   |   |

Supplemental disclosures of cash flow information: