

PARK NATIONAL CORP /OH/
Form 8-K
October 29, 2012

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) October 29, 2012

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

Ohio (State or other jurisdiction of incorporation)	1-13006 (Commission File Number)	31-1179518 (IRS Employer Identification No.)
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50 North Third Street, P.O. Box 3500, Newark, Ohio (Address of principal executive offices)	43058-3500 (Zip Code)
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(740) 349-8451
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 - Results of Operations and Financial Condition.

On October 29, 2012, Park National Corporation (“Park”) issued a news release (the “Financial Results News Release”) announcing financial results for the three and nine months ended September 30, 2012. A copy of this Financial Results News Release is included as Exhibit 99.1 to this Current Report on Form 8-K and incorporated by reference herein.

Park's management uses certain non-U.S. GAAP (U.S. generally accepted accounting principles) financial measures to evaluate Park's performance. Specifically, management reviews return on average tangible common equity, return on average tangible assets, tangible common equity to tangible assets and tangible common book value per common share. Management has included in the Financial Results News Release information relating to the return on average tangible common equity, return on average tangible assets, tangible common equity to tangible assets and tangible common book value per common share for the three and nine month periods ended September 30, 2012 and 2011. For purposes of calculating the return on average tangible common equity, a non-U.S. GAAP financial measure, net income available to common shareholders for each period is divided by average tangible common equity during the period. Average tangible common equity equals average stockholders' equity during the applicable period less (i) average goodwill and other intangible assets during the applicable period and (ii) average preferred stock during the applicable period. For the purpose of calculating the return on average tangible assets, a non-U.S. GAAP financial measure, net income available to common shareholders for each period is divided by average tangible assets during the period. Average tangible assets equals average assets during the applicable period less average goodwill and other intangible assets during the applicable period. For the purpose of calculating tangible common equity to tangible assets, a non-U.S. GAAP financial measure, tangible common equity is divided by tangible assets. Tangible common equity equals stockholders' equity less preferred stock and goodwill and intangible assets. Tangible assets equals total assets less goodwill and intangible assets. For the purpose of calculating tangible common book value per common share, a non-U.S. GAAP financial measure, tangible common equity is divided by common shares outstanding at period end. Management believes that the disclosure of return on average tangible common equity, return on average tangible assets, tangible common equity to tangible assets and tangible common book value per common share presents additional information to the reader of the consolidated financial statements, which, when read in conjunction with the consolidated financial statements prepared in accordance with U.S. GAAP, assists in analyzing Park's operating performance and ensures comparability of operating performance from period to period while eliminating certain non-operational effects of acquisitions and, in the case of return on average common equity and tangible common book value per common share, the impact of preferred stock. In the Financial Results News Release, Park has provided a reconciliation of average tangible common equity to average stockholders' equity, average tangible assets to average assets, tangible common equity to stockholders' equity and tangible assets to total assets solely for the purpose of complying with SEC Regulation G and not as an indication that return on average tangible common equity, return on average tangible assets, tangible common equity to tangible assets and tangible common book value per common share are substitutes for return on average equity, return on average assets, common equity to assets and common book value per common share, respectively, as determined by U.S. GAAP.

Item 7.01 - Regulation FD Disclosure

The following is a discussion of the financial results for the three and nine months ended September 30, 2012 and a comparison of these results to the guidance previously provided within the Annual Report to Shareholders for the fiscal year ended December 31, 2011 (the "2011 Annual Report").

The table below reflects the net income (loss) by segment for the first, second and third quarters of 2012, projected results for the fourth quarter of 2012, and results for each of the prior two fiscal years ended December 31, 2011 and 2010. Park's segments include The Park National Bank ("PNB"), Guardian Financial Services Company ("GFSC"), SE Property Holdings, LLC ("SEPH") and "All Other" which primarily consists of Park as the "Parent Company."

(In thousands)	Q1 2012	Q2 2012	Q3 2012	Projected Q4 2012	Projected 2012	2011	2010
PNB	\$21,561	\$23,483	\$22,068	\$21,661	\$88,773	\$106,851	\$102,948
GFSC	806	909	971	993	3,679	2,721	2,006
Park Parent Company	49	134	274	(191)	)266	(1,595)	)(1,439)
Ongoing operations	\$22,416	\$24,526	\$23,313	\$22,463	\$92,718	\$107,977	\$103,515
Vision Bank	—	—	—	—	—	(22,526)	)(45,414)
SEPH	9,059	(5,640)	)(11,331)	)(4,047)	)(11,959)	)(3,311))—
Total Park	\$31,475	\$18,886	\$11,982	\$18,416	\$80,759	\$82,140	\$58,101

The "Park Parent Company" above excludes the results for SEPH, an entity which is winding down commensurate with the disposition of its problem assets. Management considers the "Ongoing operations" results to be reflective of the business of Park and its subsidiaries on a going forward basis. The discussion below provides some additional information regarding the segments that make up the "Ongoing operations".

The Park National Bank (PNB)

The table below reflects the results for PNB for the first, second and third quarters of 2012, projected results for the fourth quarter of 2012, and results for each of the prior two fiscal years ended December 31, 2011 and 2010.

(In thousands)	Q1 2012	Q2 2012	Q3 2012	Projected Q4 2012	Projected 2012	2011	2010
Net interest income	\$55,846	\$56,022	\$55,366	\$54,216	\$221,450	\$236,282	\$237,281
Provision for loan losses	4,672	3,756	4,125	3,826	16,379	30,220	23,474
Fee income	16,661	17,700	18,150	18,081	70,592	67,348	68,648
Security gains	—	—	—	—	—	23,634	11,864
Total other expense	38,056	37,260	39,609	38,513	153,438	146,235	144,051
Income before income taxes	\$29,779	\$32,706	\$29,782	\$29,958	\$122,225	\$150,809	\$150,268
Federal income taxes	8,218	9,223	7,714	8,297	33,452	43,958	47,320
Net income	\$21,561	\$23,483	\$22,068	\$21,661	\$88,773	\$106,851	\$102,948
Net income excluding security gains	\$21,561	\$23,483	\$22,068	\$21,661	\$88,773	\$91,489	\$95,236

Management previously projected 2012 net income for PNB of approximately \$93 million within the 2011 Annual Report. Due primarily to the continued low interest rate environment, management's most recent projection for PNB's net income is \$89 million.

The table below provides certain balance sheet information and financial ratios for PNB as of September 30, 2012, for the year ended December 31, 2011 and as of September 30, 2011.

(In thousands)	Sept. 30, 2012	Dec. 31, 2011	Sept. 30, 2011	% change from 12/31/11	% change from 9/30/11	
Loans	\$4,311,117	\$4,172,424	\$4,111,272	3.32	% 4.86	%
Allowance for loan losses	53,145	55,409	63,780	(4.09)	)(16.67)(%)
Net loans	4,257,972	4,117,015	4,047,492	3.42	% 5.20	%
Total assets	6,601,785	6,281,747	6,346,125	5.09	% 4.03	%
Average assets (YTD)	6,530,055	6,453,404	6,489,781	1.19	% 0.62	%
Deposits	4,895,627	4,611,646	4,671,968	6.16	% 4.79	%
Return on average assets *	1.37	% 1.42	% 1.49	%(3.52	)(8.05)(%)

* Annualized for the nine months ended September 30, 2012 and 2011. Excludes gains on the sale of investment securities for the nine months ended September 30, 2011 and the year ended December 31, 2011.

The \$139 million (3.32%) increase in loans experienced at PNB through the first nine months of 2012 is primarily related to continued demand in the mortgage loan portfolio, which has increased by \$98.4 million. Of the \$98.4 million increase in the mortgage loan portfolio, approximately \$96.8 million of the increase is associated with our decision to retain a portion of the 15-year, fixed-rate mortgages originated by PNB rather than selling them in the secondary market. As noted above, PNB's allowance for loan losses has declined by \$10.6 million, or 16.67%, to \$53.1 million at September 30, 2012 compared to \$63.8 million at September 30, 2011. The decline in PNB's allowance for loan losses is due to continued improvement in the credit metrics across the PNB loan portfolio, as well as declines in specific reserves established for impaired commercial loans. Refer to the "Credit Metrics and Provision for Loan Losses" section below for additional information regarding the improvements in the credit metrics of PNB's loan portfolio.

Guardian Financial Services Company (GFSC)

The table below reflects the results for GFSC for the first, second and third quarters of 2012, projected results for the fourth quarter of 2012, and results for each of the prior two fiscal years ended December 31, 2011 and 2010.

(In thousands)	Q1 2012	Q2 2012	Q3 2012	Projected Q4 2012	Projected 2012	2011	2010
Net interest income	\$2,211	\$2,305	\$2,371	\$2,407	\$9,294	\$8,693	\$7,611
Provision for loan losses	250	200	184	151	785	2,000	2,200
Fee income	—	—	—	1	1	—	2
Total other expense	721	706	693	728	2,848	2,506	2,325
Income before income taxes	\$1,240	\$1,399	\$1,494	\$1,529	\$5,662	\$4,187	\$3,088
Federal income taxes	434	490	523	536	1,983	1,466	1,082
Net income	\$806	\$909	\$971	\$993	\$3,679	\$2,721	\$2,006

In the 2011 Annual Report, management stated that GFSC was expected to make net income of \$3.0 million in 2012. Management's latest guidance for 2012 reflects a slight increase in net income for GFSC to approximately \$3.7 million. This improvement is the result of a lower provision for loan losses based on credit analysis performed by GFSC's management.

The table below provides certain balance sheet information and financial ratios for GFSC as of September 30, 2012, for the year ended December 31, 2011 and as of September 30, 2011.

(In thousands)	Sept. 30, 2012	Dec. 31, 2011	Sept. 30, 2011	% change from 12/31/11	% change from 9/30/11	
Loans	\$50,099	\$47,111	\$46,680	6.34	%7.32	%
Allowance for loan losses	2,419	2,297	2,043	5.31	%18.40	%
Net loans	47,680	44,814	44,637	6.40	%6.82	%
Total assets	49,921	46,682	46,449	6.94	%7.47	%
Average assets (YTD)	47,819	45,588	45,345	4.89	%5.46	%
Return on average assets *	7.50	%5.97	%5.79	%25.63	%29.53	%

* Annualized for the nine months ended September 30, 2012 and 2011.

Park Parent Company

The table below reflects the results for Park's Parent Company for the first, second and third quarters of 2012, projected results for the fourth quarter of 2012, and results for each of the prior two fiscal years ended December 31, 2011 and 2010.

(In thousands)	Q1 2012	Q2 2012	Q3 2012	Projected Q4 2012	Projected 2012	2011	2010
Net interest income	\$1,061	\$1,478	\$1,167	\$1,211	\$4,917	\$2,155	\$1,285
Provision for loan losses	—	—	—	—	—	—	—
Fee income	68	83	120	80	351	350	390
Total other expense	1,528	1,839	1,373	1,861	6,601	7,115	9,107
Income (loss) before income taxes	\$(399)	\$(278)	\$(86)	\$(570)	\$(1,333)	\$(4,610)	\$(7,432)
Federal income tax (benefit)	(448)	(412)	(360)	(379)	(1,599)	(3,015)	(5,993)
Net income (loss)	\$49	\$134	\$274	\$(191)	\$266	\$(1,595)	\$(1,439)

In the 2011 Annual Report, management projected net income of \$1 million for the Parent Company, Vision Bank through February 16, 2012 and SEPH. Typically, we expect the Park Parent Company will perform around breakeven. Management's most recent projection shows net income of \$0.3 million for 2012.

The net interest income for Park's parent company includes interest income on loans to SEPH and on subordinated debt investments with PNB, which are eliminated in the consolidated Park National Corporation totals. Additionally, net interest income includes interest expense related to the \$35.25 million and \$30 million of subordinated notes issued by Park in December 2009 and April 2012, respectively.

SEPH / Vision Bank

Vision Bank ("Vision") merged with and into SEPH, a non-bank subsidiary of Park, following the sale of the Vision business to Centennial Bank ("Centennial") on February 16, 2012. SEPH holds the remaining assets and liabilities retained by Vision subsequent to the sale. SEPH's assets consist primarily of performing and nonperforming loans and other real estate owned ("OREO"). This segment represents a run off portfolio of the legacy Vision assets.

The table below reflects the results for SEPH for the first, second and third quarters of 2012 and projected results for the fourth quarter of 2012. The SEPH results for the first quarter of 2012 include Vision's results prior to the completion of the sale to Centennial on February 16, 2012. Also included below are the results for SEPH and Vision for each of the fiscal year ended December 31, 2011. SEPH was formed in March 2011. Prior to holding the remaining Vision Bank assets, SEPH held OREO assets that were transferred from Vision to SEPH.

(In thousands)	Q1 2012	Q2 2012	Q3 2012	Projected Q4 2012	Projected 2012	SEPH 2011	Vision 2011
Net interest income	\$2,610	\$(1,125)	\$(888)	\$(1,104)	\$(507)	\$(974)	\$27,078
Provision for loan losses	3,416	1,282	12,346	1,250	18,294	—	31,052
Fee income	724	(275)	(191)	(525)	(267)	(3,039)	1,422
Security gains	—	—	—	—	—	—	5,195
Gain on sale of Vision business	22,167	—	—	—	22,167	—	—
Total other expense	8,165	5,999	4,008	3,349	21,521	1,082	31,379
Income (loss) before income taxes	\$13,920	\$(8,681)	\$(17,433)	\$(6,228)	\$(18,422)	\$(5,095)	\$(28,736)
Federal income taxes (benefit)	4,861	(3,041)	(6,102)	(2,181)	(6,463)	(1,784)	(6,210)
Net income (loss)	\$9,059	\$(5,640)	\$(11,331)	\$(4,047)	\$(11,959)	\$(3,311)	\$(22,526)
Net income (loss) excluding security gains	\$9,059	\$(5,640)	\$(11,331)	\$(4,047)	\$(11,959)	\$(3,311)	\$(25,903)

In the 2011 Annual Report, management projected combined net income of \$1 million for the Park Parent Company, Vision through February 16, 2012 and SEPH. As noted above, we typically expect the Park Parent Company will perform around breakeven. As such, management expected net income of approximately \$1 million for the combined operations of Vision through February 16, 2012 and SEPH throughout the 2012 year. Management's most recent projection for the combined SEPH / Vision is a net loss of \$12.0 million for 2012. The decline in projected net income is primarily due to increased provision for loan losses and other expense at SEPH through the first nine months of 2012.

The \$12.3 million loan loss provision in the third quarter of 2012 was largely related to a single loan relationship held by SEPH. PNB also holds a participation interest in this loan relationship. The majority of the loan relationship is secured by a significant third party receivable. As a result of continued delays in the expected repayment of the loan relationship and additional information received during the third quarter of 2012, including recent events that raised concern about the collectability of this receivable, Park's management determined that it was appropriate for SEPH and PNB to charge-down the loan relationship by an amount of \$13.0 million (\$2.5 million at PNB and \$10.5 million at SEPH), in the aggregate (with a loan loss provision of the same amount). The remaining loans at SEPH are generally well secured by either real estate or personal property and have been previously written down (as needed) to the fair value of the underlying real estate or personal property determined by recent appraisals.

On February 16, 2012, when Vision merged with and into SEPH, the loans then held by Vision were transferred to SEPH by operation of law at their fair market value and no allowance for loan loss is carried at SEPH. The loans included in both the performing and nonperforming portfolios have been charged down to their fair value. The table below provides additional information regarding charge-offs as a percentage of unpaid principal balance, as of September 30, 2012:

SEPH - Retained Vision Loan Portfolio

(In thousands)	Unpaid Principal Balance	Charge-Offs	Net Book Balance	Charge-off Percentage
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Nonperforming loans - retained by SEPH	\$144,843	\$86,005	\$58,838	59	%
Performing loans - retained by SEPH	10,344	712	9,632	7	%
Total SEPH loan exposure	\$155,187	\$86,717	\$68,470	56	%

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The table below provides an overview of all Vision exposure remaining at SEPH. This information is provided as of June 30, 2012 and September 30, 2012, showing the decline in legacy Vision assets at SEPH over the past quarter.