PARK NATIONAL CORP /OH/
Form 8-K
January 28, 2013

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) January 28, 2013

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

Ohio	1-13006	31-1179518
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

50 North Third Street, P.O. Box 3500, Newark, Ohio	43058-3500
(Address of principal executive offices)	(Zip Code)

(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))

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Item 2.02 - Results of Operations and Financial Condition.

On January 28, 2013, Park National Corporation (“Park”) issued a news release (the “Financial Results News Release”) announcing financial results for the three months (fourth quarter) and fiscal year ended December 31, 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, the ratio of 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, the ratio of tangible common equity to tangible assets and tangible common book value per common share for the three months and years ended December 31, 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 the ratio of 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, the ratio of 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, the ratio of 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, the ratio of 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 months (fourth quarter) and year ended December 31, 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 each quarter of 2012, the results for the fiscal year ended December 31, 2012, and the results for each of the prior two fiscal years ended December 31, 2011 and 2010. Park's current 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 addition, Vision Bank was included as a segment for each of the fiscal years ended December 31, 2011 and 2010.

(In thousands)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	2011	2010
PNB	$21,561	$23,483	$22,068	$19,994	$87,106	$106,851	$102,948
GFSC	806	909	971	864	3,550	2,721	2,006
Park Parent Company	49	134	274	(262)	195	(1,595)	(1,439)
Ohio-based operations	$22,416	$24,526	$23,313	$20,596	$90,851	$107,977	$103,515
Vision Bank	—	—	—	—	—	(22,526)	(45,414)
SEPH	9,059	(5,640)	(11,331)	(4,309)	(12,221)	(3,311)	—
Total Park	$31,475	$18,886	$11,982	$16,287	$78,630	$82,140	$58,101

The results for “Park Parent Company” above exclude the results for SEPH, an entity which is winding down commensurate with the disposition of its problem assets. Management considers the results of the “Ohio-based operations” to reflect the business of Park and its subsidiaries going forward. The discussion below provides additional information regarding Park's segments.

The Park National Bank (PNB)

The table below reflects the results for PNB for each quarter of 2012, the results for the fiscal year ended December 31, 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	Q4 2012	2012	2011	2010
Net interest income	$55,846	$56,022	$55,366	$54,524	$221,758	$236,282	$237,281
Provision for loan losses	4,672	3,756	4,125	4,125	16,678	30,220	23,474
Fee income	16,661	17,700	18,150	18,228	70,739	67,348	68,648
Security gains	—	—	—	—	—	23,634	11,864
Total other expense	38,056	37,260	39,609	41,591	156,516	146,235	144,051
Income before income taxes	$29,779	$32,706	$29,782	$27,036	$119,303	$150,809	$150,268
Federal income taxes	8,218	9,223	7,714	7,042	32,197	43,958	47,320
Net income	$21,561	$23,483	$22,068	$19,994	$87,106	$106,851	$102,948
Net income excluding security gains	$21,561	$23,483	$22,068	$19,994	$87,106	$91,489	$95,236

Management originally projected 2012 net income for PNB of approximately $93 million within the 2011 Annual Report. Due primarily to the continued low interest rate environment, PNB's net income for the fiscal year ended December 31, 2012 was $87.1 million.

Total other expense at PNB was $156.5 million for the year ended December 31, 2012, an increase of $10.3 million, or 7.0%, from the total other expense of $146.2 million in 2011. The $10.3 million increase was the result of increases of approximately (i) $2.4 million in salaries and employee benefit expense, (ii) $1.7 million in fees and expenses, largely related to increases in

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legal fees, (iii) $1.5 million of additional expense in Q4 2012 related to a one-time off-balance sheet liability and (iv) $4.7 million in miscellaneous increases within equipment costs, communications, marketing, data processing and state franchise taxes.

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

(In thousands)	Dec. 31, 2012	Dec. 31, 2011	% change from 12/31/11
Loans	$4,369,173	$4,172,424	4.72 %
Allowance for loan losses	53,131	55,409	(4.11)%
Net loans	4,316,042	4,117,015	4.83 %
Total assets	6,502,579	6,281,747	3.52 %
Average assets	6,532,683	6,453,404	1.23 %
Deposits	4,814,107	4,611,646	4.39 %
Return on average assets *	1.33 %	1.42 %	(6.34)%

* Excludes gains on the sale of investment securities for the fiscal year ended December 31, 2011.

The $196.7 million (4.72%) increase in loans experienced at PNB in 2012 was primarily related to continued demand for 1-4 family mortgages, which has increased by $123.5 million. Of the $123.5 million increase in the mortgage loan portfolio, approximately $91.1 million of the increase was associated with our decision to retain a portion of the 15-year, fixed-rate mortgages originated by PNB rather than selling these loans in the secondary market. The balance of the increase in loans of $73.2 million was across all loan portfolio categories, with the most significant increase being in commercial loans (up $47.4 million). As noted above, PNB's allowance for loan losses declined by $2.3 million, or 4.11%, to $53.1 million at December 31, 2012 compared to $55.4 million at December 31, 2011. The decline in PNB's allowance for loan losses was due to continued improvement in the credit metrics across the PNB loan portfolio. 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 each quarter of 2012, the results for the fiscal year ended December 31, 2012, and the results for each of the prior two fiscal years ended December 31, 2011 and 2010.

(In thousands)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	2011	2010
Net interest income	$2,211	$2,305	$2,371	$2,269	$9,156	$8,693	$7,611
Provision for loan losses	250	200	184	225	859	2,000	2,199
Fee income	—	—	—	—	—	—	2
Total other expense	721	706	693	715	2,835	2,506	2,326
Income before income taxes	$1,240	$1,399	$1,494	$1,329	$5,462	$4,187	$3,088
Federal income taxes	434	490	523	465	1,912	1,466	1,082
Net income	$806	$909	$971	$864	$3,550	$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. Actual results for 2012 were net income of $3.5 million. This improvement was the result of increased net interest income due to the 6.31% increase in loans in 2012, as well as a lower provision for loan losses based on analysis of the credit portfolio performed by GFSC's management.

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

(In thousands)	December 31, 2012	December 31, 2011	% change from 12/31/11
Loans	$50,082	$47,111	6.31 %
Allowance for loan losses	2,406	2,297	4.75 %
Net loans	47,676	44,814	6.39 %
Total assets	49,926	46,682	6.95 %
Average assets	48,381	45,588	6.13 %
Return on average assets	7.34 %	5.97 %	22.95 %

Park Parent Company

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

(In thousands)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	2011	2010
Net interest income	$1,061	$1,478	$1,167	$1,036	$4,742	$2,155	$1,285
Provision for loan losses	—	—	—	—	—	—	—
Fee income	68	83	120	(38)	233	350	389
Total other expense	1,528	1,839	1,373	1,845	6,585	7,115	9,106
Income (loss) before income taxes	$(399)	$(278)	$(86)	$(847)	$(1,610)	$(4,610)	$(7,432)
Federal income tax (benefit)	(448)	(412)	(360)	(585)	(1,805)	(3,015)	(5,993)
Net income (loss)	$49	$134	$274	$(262)	$195	$(1,595)	$(1,439)

In the 2011 Annual Report, management projected aggregate 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. Results for 2012 show net income of $195,000.

Net interest income for Park's parent company included interest income on loans by Park to SEPH and on subordinated debt investments by Park with PNB, which were eliminated in the consolidated Park National Corporation totals. Additionally, net interest income included 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 each quarter of 2012 and the results for the fiscal year ended December 31, 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 the fiscal year ended December 31, 2011. SEPH was formed in March 2011. Prior to holding the remaining Vision assets, SEPH held OREO assets that were sold by Vision to SEPH.

(In thousands)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	SEPH 2011	Vision 2011
Net interest income	$2,610	$(1,125)	$(888)	$(938)	$(341)	$(974)	$27,078
Provision for loan losses	3,416	1,282	12,346	838	17,882	—	31,052
Fee income	724	(275)	(191)	(994)	(736)	(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	3,860	22,032	1,082	31,379
Income (loss) before income taxes	$13,920	$(8,681)	$(17,433)	$(6,630)	$(18,824)	$(5,095)	$(28,736)
Federal income taxes (benefit)	4,861	(3,041)	(6,102)	(2,321)	(6,603)	(1,784)	(6,210)
Net income (loss)	$9,059	$(5,640)	$(11,331)	$(4,309)	$(12,221)	$(3,311)	$(22,526)
Net income (loss) excluding security gains	$9,059	$(5,640)	$(11,331)	$(4,309)	$(12,221)	$(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. For the fiscal year ended December 31, 2012, SEPH reported a net loss of $12.2 million. The decline in projected net income was primarily due to increased provision for loan losses and higher than projected total other expense incurred by SEPH throughout 2012.

SEPH results for the fourth quarter of 2012 included a $1.7 million expense to establish a valuation allowance against certain OREO assets. The expense related to the establishment of the valuation allowance was included within fee income.

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 thus no allowance for loan loss was carried at SEPH. The loans included in both the performing and nonperforming portfolios were charged down to their fair value. The table below provides additional information regarding charge-offs as a percentage of unpaid principal balance, as of December 31, 2012:

SEPH - Retained Vision Loan Portfolio

(In thousands)	Unpaid Principal Balance	Charge-Offs	Net Book Balance	Charge-off Percentage
Nonperforming loans - retained by SEPH	$126,801	$71,509	$55,292	56%
Performing loans - retained by SEPH	4,236	350	3,886	8%
Total SEPH loan exposure	$131,037	$71,859	$59,178	55%

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The table below provides an overview of all Vision exposure remaining at SEPH. This information is provided as of December 31, 2012 and September 30, 2012, showing the decline in legacy Vision assets at SEPH over the fourth quarter of 2012.

(In thousands)	SEPH 12/31/2012	SEPH 9/30/2012	Change from last quarter
Nonperforming loans - retained by SEPH	$55,292	$58,838	$(3,546)
OREO - retained by SEPH	21,003	21,934	(931)
Total nonperforming assets	$76,295	$80,772	$(4,477)
Performing loans - retained by SEPH	$3,886	$9,632	$(5,746)
Total SEPH - Legacy Vision assets	$80,181	$90,404	