

PARK NATIONAL CORP /OH/
Form 10-Q
August 02, 2013

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, 2013

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

15,411,973 Common shares, no par value per share, outstanding at August 1, 2013.

PARK NATIONAL CORPORATION

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PARK NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Condensed Balance Sheets (Unaudited)

(in thousands, except share and per share data)

	June 30, 2013	December 31, 2012
Assets:		
Cash and due from banks	\$117,910	\$164,120
Money market instruments	236,016	37,185
Cash and cash equivalents	353,926	201,305
Investment securities:		
Securities available-for-sale, at fair value (amortized cost of \$1,067,835 and \$1,099,658 at June 30, 2013 and December 31, 2012)	1,047,375	1,114,454
Securities held-to-maturity, at amortized cost (fair value of \$238,519 and \$410,705 at June 30, 2013 and December 31, 2012)	231,787	401,390
Other investment securities	65,907	65,907
Total investment securities	1,345,069	1,581,751
Loans	4,510,716	4,450,322
Allowance for loan losses	(55,111)	(55,537)
Net loans	4,455,605	4,394,785
Bank owned life insurance	167,740	161,069
Goodwill and other intangible assets	72,446	72,671
Bank premises and equipment, net	56,822	53,751
Other real estate owned	35,662	35,718
Accrued interest receivable	18,840	19,710
Mortgage loan servicing rights	8,260	7,763
Other	126,103	114,280
Total assets	\$6,640,473	\$6,642,803
Liabilities and Stockholders' Equity:		
Deposits:		
Noninterest bearing	\$1,095,454	\$1,137,290
Interest bearing	3,755,860	3,578,742
Total deposits	4,851,314	4,716,032
Short-term borrowings	223,489	344,168
Long-term debt	783,136	781,658
Subordinated debentures and notes	80,250	80,250
Accrued interest payable	3,232	3,459
Other	59,833	66,870
Total liabilities	\$6,001,254	\$5,992,437
COMMITMENTS AND CONTINGENCIES		
Stockholders' equity:		
Common stock (No par value; 20,000,000 shares authorized; 16,150,966 shares issued at June 30, 2013 and 16,150,987 shares issued at December 31, 2012)	\$302,653	\$302,654
Retained earnings	453,375	441,605
Treasury stock (738,989 shares at June 30, 2013 and at December 31, 2012)	(76,375)	(76,375)
Accumulated other comprehensive loss, net of taxes	(40,434)	(17,518)
Total stockholders' equity	639,219	650,366
Total liabilities and stockholders' equity	\$6,640,473	\$6,642,803

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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PARK NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Condensed Statements of Income (Unaudited)

(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Interest and dividend income:				
Interest and fees on loans	\$56,388	\$57,593	\$112,163	\$118,698
Interest and dividends on:				
Obligations of U.S. Government, its agencies and other securities	8,673	13,794	18,915	27,378
Obligations of states and political subdivisions	16	42	33	88
Other interest income	202	57	360	160
Total interest and dividend income	65,279	71,486	131,471	146,324
Interest expense:				
Interest on deposits:				
Demand and savings deposits	468	602	969	1,356
Time deposits	2,900	4,121	5,990	8,760
Interest on borrowings:				
Short-term borrowings	134	163	278	338
Long-term debt	7,065	7,920	14,069	15,462
Total interest expense	10,567	12,806	21,306	25,916
Net interest income	54,712	58,680	110,165	120,408
Provision for loan losses	673	5,238	1,002	13,576
Net interest income after provision for loan losses	54,039	53,442	109,163	106,832
Other income:				
Income from fiduciary activities	4,328	4,044	8,404	7,872
Service charges on deposit accounts	4,070	4,154	7,892	8,225
Other service income	3,352	3,417	7,337	6,151
Checkcard fee income	3,316	3,180	6,299	6,352
Bank owned life insurance income	1,254	1,184	2,456	2,386
ATM fees	677	536	1,304	1,144
OREO valuation adjustments	(600)	(2,648)	(199)	(4,007)
Gain on sale of OREO, net	1,633	2,203	1,857	3,248
Gain on sale of the Vision Bank business	—	—	—	22,167
Miscellaneous	1,268	1,438	2,753	3,590
Total other income	19,298	17,508	38,103	57,128

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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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Other expense:				
Salaries and employee benefits	\$24,679	\$22,813	\$49,312	\$47,636
Occupancy expense	2,444	2,249	5,041	4,919
Furniture and equipment expense	2,981	2,727	5,588	5,348
Data processing fees	1,049	899	2,068	2,099
Professional fees and services	5,880	5,800	11,744	11,381
Amortization of intangibles	113	140	225	1,894
Marketing	953	705	1,801	1,548
Insurance	1,338	1,400	2,640	2,890
Communication	1,453	1,494	3,033	3,031
State taxes	928	933	1,856	1,922
Loan put provision	—	2,701	—	3,363
OREO expense	969	1,106	1,481	1,829
Miscellaneous	3,783	2,837	7,879	6,414
Total other expense	46,570	45,804	92,668	94,274
Income before income taxes	26,767	25,146	54,598	69,686
Federal income taxes	6,733	6,260	13,854	19,325
Net income	20,034	18,886	40,744	50,361
Preferred share dividends and accretion	—	1,948	—	3,425
Net income available to common shareholders	\$20,034	\$16,938	\$40,744	\$46,936
Earnings per Common Share:				
Net income available to common shareholders				
Basic	\$1.30	\$1.10	\$2.64	\$3.05
Diluted	\$1.30	\$1.10	\$2.64	\$3.05
Weighted average common shares outstanding				
Basic	15,411,981	15,405,902	15,411,986	15,405,906
Diluted	15,411,981	15,405,902	15,411,986	15,409,690
Cash dividends declared	\$0.94	\$0.94	\$1.88	\$1.88

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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PARK NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Condensed Statements of Comprehensive Income (Loss) (Unaudited)

(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$20,034	\$18,886	\$40,744	\$50,361
Other comprehensive income (loss), net of tax:				
Change in funded status of pension plan, net of income taxes of \$222 for the six months ended June 30, 2012	—	—	—	412
Unrealized net holding gain on cash flow hedge, net of income taxes of \$79 for the three months ended June 30, 2012 and \$139 for the six months ended June 30, 2012	—	146	—	259
Unrealized net holding (loss) gain on securities available-for-sale, net of income tax (benefit) of \$(11,058) and \$1,511 for the three months ended June 30, 2013 and 2012, and \$(12,340) and \$326 for the six months ended June 30, 2013 and 2012, respectively	(20,537)	2,806	(22,916)	604
Other comprehensive income (loss)	\$(20,537)	\$2,952	\$(22,916)	\$1,275
Comprehensive income (loss)	\$(503)	\$21,838	\$17,828	\$51,636

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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PARK NATIONAL CORPORATION AND SUBSIDIARIES

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

(in thousands, except per share data)

	Preferred Shares	Common Shares	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)
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)
Balance at December 31, 2012	\$—	\$302,654	\$441,605	\$(76,375)	\$(17,518)
Net Income			40,744		
Other comprehensive (loss), net of tax:					
Unrealized net holding loss on securities available-for-sale, net of income tax benefit of \$(12,340)					(22,916)
Cash dividends on common stock at \$1.88 per share			(28,974)		
Cash payment for fractional shares in dividend reinvestment plan		(1)			
Balance at June 30, 2013	\$—	\$302,653	\$453,375	\$(76,375)	\$(40,434)

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	Six Months Ended	
	June 30,	
	2013	2012
Operating activities:		
Net income	\$40,744	\$50,361
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,002	13,576
Loan put provision	—	3,363
Other than temporary impairment on investment securities	—	54
Amortization of loan fees and costs, net	1,613	595
Provision for depreciation	3,550	3,459
Amortization of core deposit intangibles	225	1,894
Amortization/(accretion) of investment securities, net	21	(227)
Amortization of prepayment penalty on long-term debt	2,410	—
Loan originations to be sold in secondary market	(231,023)	(164,172)
Proceeds from sale of loans in secondary market	243,628	159,352
Gain on sale of loans in secondary market	2,931	2,259
OREO valuation adjustments	199	4,007
Bank owned life insurance income	(2,456)	(2,386)
Changes in assets and liabilities:		
Increase in other assets	(5,154)	(22,588)
Decrease in other liabilities	(7,264)	(566)
Net cash provided by operating activities	\$50,426	\$48,981
Investing activities:		
Proceeds from sales of Federal Home Loan Bank stock	—	1,319
Proceeds from calls and maturity of:		
Available-for-sale securities	338,306	464,653
Held-to-maturity securities	169,603	303,595
Purchases of:		
Available-for-sale securities	(306,503)	(509,998)
Held-to-maturity securities	—	(238,593)
Net loan originations, portfolio loans	(72,687)	(85,808)
Sale of assets/liabilities related to Vision Bank	—	(144,436)
Purchases of bank owned life insurance, net	(4,600)	(2,500)
Purchases of premises and equipment, net	(6,621)	(1,979)
Net cash provided by (used in) investing activities	\$117,498	\$(213,747)
Financing activities:		
Net increase in deposits	\$135,282	\$357,861

Net decrease in short-term borrowings	(120,679) (22,992)
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Repayment of long-term debt	(25,932) (15,500)
Proceeds from issuance of long-term debt	25,000	30,000	
Cash payment for repurchase of common share warrant from U.S. Treasury	—	(2,843)
Repurchase of preferred shares from U.S. Treasury	—	(100,000)
Cash dividends paid on common shares and preferred shares	(28,974) (31,184)
Net cash (used in) provided by financing activities	\$(15,303) \$215,342	
Increase in cash and cash equivalents	152,621	50,576	
Cash and cash equivalents at beginning of year	201,305	157,486	
Cash and cash equivalents at end of period	\$353,926	\$208,062	
Supplemental disclosures of cash flow information:			
Cash paid for:			
Interest	\$21,533	\$26,172	
Income taxes	\$4,500	\$1,000	
Transfers to OREO	\$12,622	\$12,552	

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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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 (sometimes also referred to as the “Registrant”) and its subsidiaries. Unless the context otherwise requires, references to "Park", the "Corporation" or the "Company" and similar terms mean Park National Corporation and its subsidiaries. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results of operations for the interim periods included herein have been made. The results of operations for the three-month and six-month periods ended June 30, 2013 are not necessarily indicative of the operating results to be anticipated for the fiscal year ending December 31, 2013.