PARK NATIONAL CORP /OH/
Form 8-K
October 24, 2011

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 24, 2011

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))

Item 2.02 – Results of Operations and Financial Condition

On October 24, 2011, 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, 2011. 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-GAAP (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 and nine-month periods ended September 30, 2011 and 2010. For purposes of calculating the return on average tangible common equity, a non-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-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-GAAP financial measure, tangible common equity is divided by tangible assets. Tangible common equity equals stockholders' equity less preferred stock and goodwill and other intangible assets. Tangible assets equals total assets less goodwill and other intangible assets. For the purpose of calculating tangible common book value per common share, a non-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 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 total assets and common book value per common share, respectively, as determined by 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, 2011, and a comparison of these results to the guidance previously provided within the Annual Report for the fiscal year ended December 31, 2010 (the "Annual Report"), the Form 10-Q for the quarterly period ended March 31, 2011 ("First Quarter 10-Q"), and the Form 10-Q for the quarterly period ended June 30, 2011 ("Second Quarter 10-Q"). Management also has added its initial guidance for the twelve months ending December 31, 2012.

Net Interest Income:

For the first nine months of 2011, net interest income was $207.0 million compared to $205.5 million for the same period in 2010. For the three months ended September 30, 2011, net interest income was $67.6 million compared to $69.4 million for the same period in 2010. On page 38 of the Annual Report, management projected that net interest income for the year ending December 31, 2011 would be between $268 million and $278 million. Management's latest projection, as of the date of this Current Report on Form 8-K, forecasts net interest income of approximately $65 million for the fourth quarter of 2011 and approximately $272 million for all of 2011. For 2012, management expects that if interest rates continue to stay at these very low levels, net interest income will decrease. Management's current projection for 2012 forecasts that net interest income will be within the middle of the range of $255 million to $265 million, if interest rates remain at the present level. This forecast for 2012 projects a net interest margin of approximately 3.90%.

Net Loan Charge-Offs and Provision for Loan Losses:

For the first nine months of 2011, the provision for loan losses was $55.9 million compared to $44.5 million for the same period in 2010. For the third quarter of 2011, the provision for loan losses was $18.5 million compared to $14.7 million for the same period in 2010. For the first nine months of 2011, net loan charge-offs for Park were approximately $77.1 million compared to $43.8 million of net loan charge-offs for the same period in 2010. For the third quarter of 2011, net loan charge-offs were $28.5 million compared to $18.0 million for the same period in 2010. The following table provides a history of the Allowance for Loan and Lease Losses ("ALLL"), as well as details related to general reserve and specific reserve levels as of the end of the three quarterly periods in 2011 and the previous two years:

(dollars in thousands)	9/30/2011	6/30/2011	3/31/2011	12/31/2010	12/31/2009
Vision Specific Reserve	$ 18,383	$ 18,678	$ 33,544	$ 30,483	$ 29,225
Ohio Specific Reserve					
Ohio impaired loans	7,496	4,117	4,710	5,475	5,392
Vision Bank participations	7,396	10,015	9,033	7,501	2,104
Total Specific Reserve	$ 33,275	$ 32,810	$ 47,287	$ 43,459	$ 36,721
General Reserve	66,973	77,377	79,572	77,938	79,996
Total ALLL	$ 100,248	$ 110,187	$ 126,859	$ 121,397	$ 116,717
General Reserve as a % of non-impaired loans	1.49 %	1.72 %	1.76 %	1.74 %	1.80 %

As previously disclosed in the Form 8-K dated July 25, 2011, management determined that it was appropriate to charge-off, at June 30, 2011, certain of the specific reserves previously established on impaired commercial loans at Vision Bank. Of the $47.3 million of specific reserves at March 31, 2011, management determined it was appropriate to charge-off $29.3 million in the second quarter of 2011. At September 30, 2011, specific reserves of $33.3 million is consistent with specific reserves as of June 30, 2011. However, general reserves have declined by approximately $10 million from levels at June 30, 2011 and periods previous. This is due to sustained declines in both new nonaccrual loan levels (see table below) and commercial land and development (CL and D) loans at Vision Bank. CL and D loans have declined by approximately 40% in 2011, with total outstanding balances of approximately $102 million at September 30, 2011, compared to approximately $172 million at December 31, 2010.

During the first nine months of 2011, new nonaccrual loans for Park were approximately $65.0 million, compared to $95.2 million for the same period in 2010. For all of 2010, new nonaccrual loans were approximately $175.2 million. Management expects new nonaccrual loans will continue to be well below levels experienced in 2009 and 2010. The following table shows new nonaccrual loans for the first three quarters of 2011 and the two previous years.

New nonaccrual loan information (in thousands):	September 30, 2011	June 30, 2011	March 31, 2011	2010	2009
Nonaccrual loans, beginning of period	$238,690	$278,819	$289,268	$233,544	$159,512
New nonaccrual loans - Ohio-based operations	19,354	22,439	8,674	85,081	57,641
New nonaccrual loans - Vision Bank	5,543	2,980	5,994	90,094	126,540
Resolved nonaccrual loans	49,221	65,548	25,117	119,451	110,149
Nonaccrual loans, end of period	$214,366	$238,690	$278,819	$289,268	$233,544

On page 40 of the Annual Report, management projected that the provision for loan losses would be within the range from $47 million to $57 million for 2011. On page 48 of the Second Quarter 10-Q, management increased the estimated range and projected that the provision for loan losses for the year ending December 31, 2011 would be approximately $56 million to $66 million. The increase in the projection for 2011 was due to management's typical quarterly procedures and was primarily a result of higher provisions at Vision Bank. The latest projection for 2011 anticipates another increase to the range for the loan loss provision to $65 million to $70 million. The latest increase in the projection for 2011 was primarily based on increases in specific reserves in Vision Bank's impaired commercial loans due to new appraisals received in 2011 that showed declines in the estimated value of collateral. For the twelve months ending December 31, 2012, management currently projects the loan loss provision to be within the range of $30 million to $35 million. The significant projected reduction in the loan loss provision for 2012, of approximately $35 million, is forecast to be primarily at Vision Bank. The following table provides detail on the expected provision expense for 2011 and 2012.

		Forecast		
(in thousands)	Actual September 2011	Fourth Quarter 2011	Total 2011	Total 2012
Vision Bank	$ 35,400	$ 6,000	$ 41,400	$ 13,000
Park Ohio	20,525	6,000	26,525	20,000
Total	$ 55,925	$ 12,000	$ 67,925	$ 33,000

Management believes that the provision expense will significantly decline at Vision Bank during 2012 for the following reasons:

- The level of new nonaccrual loans is expected to continue to be very low in 2012.
- Provision expense pertaining to the write-down or reserving for nonaccrual loans is expected to dramatically decrease as most of the real estate collateral has been re-appraised in 2011. Management does not believe that new appraisals in 2012 will indicate that collateral values have continued to significantly decline.
- Management expects to see an increase in recoveries of previously charged-off loans as our third party collection efforts continue.

Other Income:

For the first nine months of 2011, total other income was $43.3 million compared to $50.9 million for the same period in 2010, excluding, in each case, gains from the sale of securities. For the third quarter of 2011, total other income was $16.9 million compared to $17.5 million for the same period in 2010. On page 39 of the Annual Report, management projected that other income, excluding gains from the sale of securities, would be within the range of $63 million to $67 million. Subsequently, on page 49 of the Second Quarter 10-Q, management stated that the latest projection for other income for 2011 would be between $58 million and $62 million. Management's latest projection forecasts total other income of approximately $18 million during the fourth quarter and approximately $61 million for 2011.

For the first nine months of 2011, Park has recognized approximately $11.3 million from the devaluations of other real estate owned "OREO", with amounts of $1.7 million, $5.3 million, and $4.3 million in the third, second, and first quarters of 2011, respectively. Management does not expect significant OREO devaluations in the last quarter of 2011. These devaluations of OREO in 2011, of $11.3 million are the primary reason why total other income for 2011 is expected to be below the original forecasted range in our Annual Report. Management believes that the devaluations of OREO in 2012 will be much lower as real estate values have largely stabilized in the markets where Vision Bank operates. Management expects total other income for the year ending December 31, 2012 to be within the range of $65 million to $69 million.

Gain on Sale of Securities:

Gains from the sale of investment securities were $3.5 million for the third quarter of 2011 and $25.5 million for the first nine months of 2011. By comparison, there were no gains or losses from the sale of investment securities in the third quarter of 2010 and gains were $11.8 million for the first three quarters of 2010.

All of the investment securities sold in 2011 have been U.S. Government sponsored entity mortgage-backed securities. The following table provides a summary of the gains realized from the sale of investment securities in 2011.

(in thousands)	Amortized Cost	Book Yield	Sales Proceeds	Yield to Buyer	Gain
Third Quarter	$ 212,799	2.60 %	$ 216,264	2.03 %	$3,465
Second Quarter	191,037	5.25 %	206,399	1.92 %	