PARK NATIONAL CORP /OH/
Form 10-Q
July 24, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

o **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 þ No o

Indicated 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 proceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated file, 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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

14,154,908 Common shares, no par value per share, outstanding at July 22, 2009.

PARK NATIONAL CORPORATION

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PARK NATIONAL CORPORATION
Consolidated Condensed Balance Sheets (Unaudited)
(dollars in thousands, except per share data)

	June 30, 2009	December 31, 2008
Assets:		
Cash and due from banks	**$ 107,053**	$ 150,298
Money market instruments	**23,959**	20,963
Cash and cash equivalents	**131,012**	171,261
Interest bearing deposits	**1**	1
Securities available-for-sale, at fair value (amortized cost of $1,347,571 and $1,513,223 at June 30, 2009 and December 31, 2008)	**1,392,677**	1,561,896
Securities held-to-maturity, at amortized cost (fair value of $463,981 and $433,435 at June 30, 2009 and December 31, 2008)	**452,024**	428,350
Other investment securities	**68,919**	68,805
Loans	**4,620,026**	4,491,337
Allowance for loan losses	**(104,804)**	(100,088)
Net loans	**4,515,222**	4,391,249
Bank premises and equipment, net	**67,254**	68,553
Bank owned life insurance	**135,258**	132,916
Goodwill and other intangible assets	**83,672**	85,545
Other real estate owned	**41,279**	25,848
Mortgage loan servicing rights	**9,928**	8,306
Accrued income and other assets	**110,364**	127,990
Total assets	**$ 7,007,610**	$ 7,070,720
Liabilities and Stockholders Equity:		
Deposits:		
Noninterest bearing	**$ 812,959**	$ 782,625
Interest bearing	**4,240,465**	3,979,125
Total deposits	**5,053,424**	4,761,750

Short-term borrowings	**458,529**	659,196
Long-term debt	**682,159**	855,558
Subordinated debentures	**40,000**	40,000
Accrued expenses and other liabilities	**108,357**	111,553
Total liabilities	**6,342,469**	6,428,057
COMMITMENTS AND CONTINGENCIES		
Stockholders equity:		
Preferred stock (200,000 shares authorized at June 30, 2009 and December 31, 2008; 100,000 shares issued at June 30, 2009 and December 31, 2008 with $1,000 per share liquidation preference)	**96,102**	95,721
Common stock (No par value; 20,000,000 shares authorized; 16,151,132 shares issued at June 30, 2009 and 16,151,151 shares issued at December 31, 2008)	**301,209**	301,210
Common stock warrant	**4,297**	4,297
Retained earnings	**446,028**	438,504
Treasury stock (1,996,224 shares at June 30, 2009 and 2,179,424 shares at December 31, 2008)	**(191,107)**	(207,665)
Accumulated other comprehensive income, net of taxes	**8,612**	10,596
Total stockholders equity	**665,141**	642,663
Total liabilities and stockholders equity	**$ 7,007,610**	$ 7,070,720

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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PARK NATIONAL CORPORATION
Consolidated Condensed Statements of Income (Unaudited)
(dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Interest and dividend income:				
Interest and fees on loans	**$ 68,496**	$ 74,932	**$ 137,584**	$ 153,942
Interest and dividends on:				
Obligations of U.S. Government, its agencies and other securities	**23,201**	22,629	**47,029**	43,334
Obligations of states and political subdivisions	**393**	565	**815**	1,219
Other interest income	**2**	75	**29**	174
Total interest and dividend income	**92,092**	98,201	**185,457**	198,669
Interest expense:				
Interest on deposits:				
Demand and savings deposits	**2,809**	5,335	**5,714**	12,693
Time deposits	**13,800**	16,618	**28,174**	35,817
Interest on borrowings:				
Short-term borrowings	**811**	4,082	**1,997**	8,832
Long-term debt	**6,678**	7,840	**13,345**	15,517
Total interest expense	**24,098**	33,875	**49,230**	72,859
Net interest income	**67,994**	64,326	**136,227**	125,810
Provision for loan losses	**15,856**	14,569	**28,143**	21,963
Net interest income after provision for loan losses	**52,138**	49,757	**108,084**	103,847
Other income:				
Income from fiduciary activities	**3,140**	3,710	**6,000**	7,283
Service charges on deposit accounts	**5,432**	6,067	**10,593**	11,851
Other service income	**5,738**	2,861	**11,284**	5,938

Other	**5,447**	5,905	**11,090**	14,510
Total other income	**19,757**	18,543	**38,967**	39,582
Gain on sale of securities	**7,340**	587	**7,340**	896

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PARK NATIONAL CORPORATION
Consolidated Condensed Statements of Income (Unaudited)
(Continued)
(dollars in thousands, except per share data)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Other expense:				
Salaries and employee benefits	**$ 25,334**	$ 24,486	**$ 50,821**	$ 49,157
Occupancy expense	**2,882**	2,883	**6,040**	5,908
Furniture and equipment expense	**2,498**	2,576	**4,876**	4,893
Other expense	**19,437**	14,488	**34,276**	27,752
Total other expense	**50,151**	44,433	**96,013**	87,710
Income before income taxes	**29,084**	24,454	**58,378**	56,615
Income taxes	**7,777**	6,263	**15,681**	15,446
Net income	**$ 21,307**	$ 18,191	**$ 42,697**	$ 41,169
Preferred stock dividends	**1,441**	0	**2,881**	0
Income available to common shareholders	**$ 19,866**	$ 18,191	**$ 39,816**	$ 41,169
Per Common Share:				
Income available to common shareholders				
Basic	**$ 1.42**	$ 1.30	**$ 2.85**	$ 2.95
Diluted	**$ 1.42**	$ 1.30	**$ 2.85**	$ 2.95
Weighted average common shares outstanding				
Basic	**14,001,608**	13,964,561	**13,986,664**	13,964,567
Diluted	**14,001,608**	13,964,561	**13,986,664**	13,964,567
Cash dividends declared	**$ 0.94**	$ 0.94	**$ 1.88**	$ 1.88

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

PARK NATIONAL CORPORATION
Consolidated Condensed Statements of Changes in Stockholders Equity (Unaudited)
(dollars in thousands, except share data)

Six Months ended June 30, 2009 and 2008	Preferred Stock	Common Stock	Retained Earnings	Treasury Stock at Cost	Accumulated Other Comprehensive Income (loss)	Comprehensive Income
BALANCE AT DECEMBER 31, 2007	$ 0	$ 301,213	$ 489,511	$ (208,104)	$ (2,608)	
Net Income			41,169			$ 41,169
Other comprehensive income (loss), net of tax:						
Unrealized net holding gain on cash flow hedge, net of taxes $34					63	63
Unrealized net holding (loss) on securities available-for-sale, net of taxes ($2,669)					(4,957)	(4,957)
Total comprehensive income						$ 36,275
Cash dividends on common stock at $1.88 per share			(26,208)			
Cash payment for fractional shares in dividend reinvestment plan		(1)				
Cumulative effect of new accounting pronouncement pertaining to endorsement split-dollar life insurance			(11,634)			
SFAS No.158 measurement date adjustment, net of taxes ($178)			(331)			
BALANCE AT JUNE 30, 2008	$ 0	$ 301,212	$ 492,507	$ (208,104)	$ (7,502)	
BALANCE AT DECEMBER 31, 2008	**$ 95,721**	**$ 305,507**	**$ 438,504**	**$ (207,665)**	**$ 10,596**	
Net Income			**42,697**			**$ 42,697**
Other comprehensive income (loss), net of tax:						
Unrealized net holding gain on cash flow hedge, net of taxes $180					**336**	**336**
Unrealized net holding (loss) on securities available-for-sale, net of taxes ($1,247)					**(2,320)**	**(2,320)**
Total comprehensive income						**$ 40,713**
Cash dividends on common stock at $1.88 per share			**(26,267)**			
Cash payment for fractional shares in dividend reinvestment plan		**(1)**				

Reissuance of common stock from treasury shares held			**(6,025)**	**16,558**	
Accretion of discount on preferred stock	**381**		**(381)**		
Preferred stock dividends			**(2,500)**		
BALANCE AT JUNE 30, 2009	**$ 96,102**	**$ 305,506**	**$ 446,028**	**$ (191,107)**	**$ 8,612**

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	Six Months Ended June 30, 2009	2008
Operating activities:		
Net income	**$ 42,697**	$ 41,169
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, accretion and amortization	**941**	(278)
Provision for loan losses	**28,143**	21,963
Other-than-temporary impairment on investment securities	**613**	439
Stock dividends on Federal Home Loan Bank stock		(1,485)
Realized net investment security gains	**(7,340)**	(896)
Amortization of core deposit intangibles	**1,873**	2,013
Changes in assets and liabilities:		
Decrease (increase) in other assets	**1,640**	(3,866)
(Decrease) in other liabilities	**(3,387)**	(18,453)
Net cash provided by operating activities	**65,180**	40,606
Investing activities:		
Proceeds from sales of available-for-sale securities	**204,304**	80,896
Proceeds from maturity of:		
Available-for-sale securities	**269,366**	186,348
Held-to-maturity securities	**13,721**	3,935
Purchases of:		
Available-for-sale securities	**(299,895)**	(355,612)

Held-to-maturity securities	**(37,394)**	(76,705)
Net increase in other investments	**(114)**	(2,906)
Net increase in loans	**(150,673)**	(161,759)
Purchases of bank owned life insurance, net		(8,107)
Purchases of premises and equipment, net	**(2,483)**	(7,210)
Net cash used for investing activities	**(3,168)**	(341,120)

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PARK NATIONAL CORPORATION
Consolidated Condensed Statements of Cash Flows (Unaudited)
(Continued)
(dollars in thousands)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Financing activities:		
Net increase in deposits	**$ 291,674**	$ 92,635
Net decrease in short-term borrowings	**(200,667)**	(36,858)
Proceeds from issuance of long-term debt	**30,100**	290,000
Repayment of long-term debt	**(203,499)**	(4,694)
Cash payment for fractional shares in dividend reinvestment plan	**(1)**	(1)
Proceeds from reissuance of common stock from treasury shares held	**8,371**	
Cash dividends paid on common and preferred stock	**(28,239)**	(39,381)
Net cash (used for) provided by financing activities	(102,261)	301,701
(Decrease) increase in cash and cash equivalents	**(40,249)**	1,187
Cash and cash equivalents at beginning of year	**171,261**	193,397
Cash and cash equivalents at end of period	**$ 131,012**	$ 194,584
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	**$ 49,818**	$ 74,210
Income taxes	**$ 10,200**	$ 19,800

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 by Park National Corporation (the Registrant , Corporation , Company , or Park) and all of its subsidiaries. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results of operations for the interim periods included herein have been made. The results of operations for the three and six month periods ended June 30, 2009 are not necessarily indicative of the operating results to be anticipated for the fiscal year ending December 31, 2009.

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and footnotes necessary for a fair presentation of the condensed balance sheets, condensed statements of income, condensed statements of changes in stockholders equity and condensed statements of cash flows in conformity with U.S. generally accepted accounting principles (GAAP). These financial statements should be read in conjunction with the consolidated financial statements incorporated by reference in the Annual Report on Form 10-K of Park for the fiscal year ended December 31, 2008 from Park s 2008 Annual Report to Shareholders.

Park s significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in Park s 2008 Annual Report to Shareholders. For interim reporting purposes, Park follows the same basic accounting policies, as updated by the information contained in this report, and considers each interim period an integral part of an annual period. Management has evaluated events occurring subsequent to the balance sheet date through July 24, 2009 (the financial statement issuance date), determining no events require additional disclosure in these consolidated condensed financial statements.

Note 2 Recent Accounting Pronouncements

Adoption of New Accounting Pronouncements:

Accounting for Business Combinations: On December 4, 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141(R), *Business Combinations*, with the objective to improve the comparability of information that a company provides in its financial statements related to a business combination. SFAS No. 141(R) establishes principles and requirements for how the acquirer: (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The statement does not apply to combinations between entities under common control. The adoption of SFAS No. 141(R) on January 1, 2009, had no impact on Park s financial statements and applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

Noncontrolling Interests in Consolidated Financial Statements: In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, which amends Accounting Research Bulletin No. 51 *Consolidated Financial Statements* (ARB 51). A noncontrolling interest, also known as a minority interest, is the portion of equity in a subsidiary not attributable to a parent. The objective of this statement is to improve upon the consistency of financial information that a company provides in its consolidated financial statements. SFAS No. 160 is effective for fiscal years , and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of SFAS No. 160 on January 1, 2009, did not have a material impact on Park s consolidated financial statements.

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Disclosures about Derivative Instruments and Hedging Activities: In March 2008, FASB issued SFAS No. 161 *Disclosures about Derivative Instruments and Hedging Activities* an amendment to SFAS No. 133. This statement requires enhanced disclosures about an entity s derivative and hedging activities and therefore should improve the transparency of financial reporting. This new accounting standard is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 on January 1, 2009, did not have a material impact on Park s consolidated financial statements.

Subsequent Events: In May 2009, FASB issued SFAS No. 165 *Subsequent Events*, with the objective to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 sets forth: (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for interim and annual financial periods ending after June 15, 2009. The adoption of SFAS No. 165 on June 30, 2009, did not have a material impact on Park s consolidated financial statements.

Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly: On April 9, 2009, the FASB issued FASB Staff Position (FSP) No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. FSP No. FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157, *Fair Value Measurements,* when the volume and level of activity for the asset or liability have significantly decreased. The FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. Further, the FSP emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The FSP amends SFAS No. 157 to require certain additional disclosures in interim and annual periods to discuss the inputs and valuation technique(s) used to measure fair value. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The adoption of FSP FAS 157-4 for the period ended June 30, 2009, did not have a material impact on Park s consolidated financial statements.

Interim Disclosures about Fair Value of Financial Instruments: On April 9, 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments.* This FSP amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim reporting periods ending after June 15, 2009. The adoption of FSP FAS 107-1 and APB 28-1 for the period ended June 30, 2009, did not have a material impact on Park s consolidated financial statements.

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Recognition and Presentation of Other-Than-Temporary Impairments: On April 9, 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FSP amends the other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The FSP is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of FSP FAS 115-2 and FAS 124-2 for the period ended June 30, 2009, did not have a material impact on Park s consolidated financial statements as Park has not experienced other-than-temporary impairment within its debt securities portfolio.

Recently Issued but not yet Effective Accounting Pronouncements:

Accounting for Transfers of Financial Assets: In June 2009, FASB issued SFAS No. 166 *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140*. The objective of SFAS No. 166 is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement in transferred financial assets. SFAS No. 166 shall be effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Management is still evaluating the impact of this accounting standard.

Amendments to FASB Interpretation No. 46(R): In June 2009, FASB issued SFAS No. 167 *Amendments to FASB Interpretation No. 46(R)*. The objective of SFAS No. 167 is to amend certain requirements of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities,* to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. SFAS No. 167 shall be effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. Management is still evaluating the impact of this accounting standard.

Note 3 Goodwill and Intangible Assets

The following table shows the activity in goodwill and core deposit intangibles for the first six months of 2009.

(In Thousands)	Goodwill	Core Deposit Intangibles	Total
December 31, 2008	$ 72,334	$ 13,211	$ 85,545
Amortization		<1,873>	<1,873>
June 30, 2009	$ 72,334	$ 11,338	$ 83,672

The core deposit intangibles are being amortized to expense principally on the straight-line method, over periods ranging from six to ten years. Management expects that the core deposit intangibles amortization expense will be approximately $0.9 million per quarter for the third and fourth quarters of 2009.

Core deposit intangibles amortization expense is projected to be as follows for each of the following years:

(In Thousands)	Annual Amortization
2009	$ 3,746
2010	3,422
2011	2,677
2012	2,677
2013	689

Total	$	13,211

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Note 4 Loans and Allowance for Loan Losses

The composition of the loan portfolio was as follows at the dates shown:

(In Thousands)	June 30, 2009	December 31, 2008
Commercial, Financial and Agricultural	$ 737,748	$ 714,296
Real Estate:		
Construction	514,830	533,788
Residential	1,567,300	1,560,198
Commercial	1,112,361	1,035,725
Consumer	684,240	643,507
Leases	3,547	3,823
Total Loans	$ 4,620,026	$ 4,491,337

Nonperforming loans are summarized as follows:

(In Thousands)	June 30, 2009	December 31, 2008
Impaired Loans		
Nonaccrual	$ 183,837	$ 138,498
Restructured	148	2,845
Total Impaired Loans	183,985	141,343
Other Nonaccrual Loans	22,596	21,014
Total Nonaccrual and Restructured Loans	$ 206,581	$ 162,357
Loans Past Due 90 Days or More and Accruing	4,417	5,421
Total Nonperforming Loans	$ 210,998	$ 167,778

The allowance for loan losses, specifically related to impaired loans at June 30, 2009 and December 31, 2008 was $13.5 million and $8.9 million, respectively.

The allowance for loan losses is that amount management believes is adequate to absorb probable incurred credit losses in the loan portfolio based on management s evaluation of various factors including overall growth in the loan portfolio, an analysis of individual loans, prior and current loss experience, and current economic conditions. A provision for loan losses is charged to operations based on management s periodic evaluation of these and other pertinent factors.

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The following table shows the activity in the allowance for loan losses for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2009	2008	2009	2008
Average Loans	$ 4,585,406	$ 4,311,989	$ 4,567,459	$ 4,270,706
Allowance for Loan Losses:				
Beginning Balance	$ 101,279	$ 85,848	$ 100,088	$ 87,102
Charge-Offs:				
Commercial, Financial and Agricultural	3,705	804	5,091	1,225
Real Estate Construction	2,448	9,683	8,936	12,294
Real Estate Residential	3,440	2,066	5,203	5,665
Real Estate Commercial	1,046	1,081	1,467	2,181
Consumer	2,824	2,410	5,994	4,680
Lease Financing	9	4	9	4
Total Charge-Offs	13,472	16,048	26,700	26,049
Recoveries:				
Commercial, Financial and Agricultural	159	193	560	409
Real Estate Construction	16	50	522	50
Real Estate Residential	212	216	715	280
Real Estate Commercial	42	285	292	302
Consumer	711	922	1,182	1,972
Lease Financing	1	10	2	16
Total Recoveries	1,141	1,676	3,273	3,029
Net Charge-Offs	12,331	14,372	23,427	23,020
Provision for Loan Losses	15,856	14,569	28,143	21,963
Ending Balance	$ 104,804	$ 86,045	$ 104,804	$ 86,045
Annualized Ratio of Net Charge-Offs to Average Loans	1.08%	1.34%	1.03%	1.08%
Ratio of Allowance for Loan Losses to End of Period Loans	2.27%	1.97%	2.27%	1.97%

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Note 5 Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per common share for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in Thousands, Except Per Share Data)	2009	2008	2009	2008
Numerator:				
Income Available to Common Shareholders	$ 19,866	$ 18,191	$ 39,816	$ 41,169
Denominator:				
Denominator for Basic Earnings Per Share (Weighted Average Common Shares Outstanding)	14,001,608	13,964,561	13,986,664	13,964,567
Effect of Dilutive Securities				
Denominator for Diluted Earnings Per Share (Weighted Average Common Shares Outstanding Adjusted for the Dilutive Securities)	14,001,608	13,964,561	13,986,664	13,964,567
Earnings Per Common Share:				
Basic Earnings Per Common Share	$ 1.42	$ 1.30	$ 2.85	$ 2.95
Diluted Earnings Per Common Share	$ 1.42	$ 1.30	$ 2.85	$ 2.95

For the three and six month periods ended June 30, 2009, options to purchase a weighted average 377,648 and 402,572 common shares, respectively, were outstanding under Park s stock option plans. Additionally, a warrant to purchase 227,376 common shares was outstanding at June 30, 2009, related to our participation in the U.S. Treasury Capital Purchase Program (CPP). For the three and six month periods ended June 30, 2008, options to purchase a weighted average 539,255 and 534,567 shares of common stock, respectively, were outstanding under Park s stock option plans. The shares represented by the options and the warrant for the three and six month periods ended June 30, 2009, totaling 605,024 and 629,948, respectively, and the shares represented by the options for the three and six month periods ended June 30, 2008, totaling 539,255 and 534,567, respectively, were not included in the computation of diluted earnings per common shares because the respective exercise prices exceeded the market value of the underlying common shares such that their inclusion would have had an anti-dilutive effect.

Note 6 Segment Information

The Corporation is a multi-bank holding company headquartered in Newark, Ohio. The operating segments for the Corporation are its two chartered bank subsidiaries, The Park National Bank (headquartered in Newark, Ohio) (PNB) and Vision Bank (headquartered in Panama City, Florida) (VIS). Management is required to disclose information about the different types of business activities in which a company engages and also information on the different economic environments in which a company operates, so that the users of the financial statements can better understand a company s performance, better understand the potential for future cash flows, and make more informed judgments about the company as a whole. Park has two operating segments, as: (i) there are two separate and distinct geographic markets in which Park operates, (ii) discrete financial information is available for each operating segment and (iii) the segments are aligned with internal reporting to Park s chief operating decision maker. The financial information for the three and six months ended June 30, 2008 has been reclassified to be consistent with the presentation of the financial information for the three and six months ended June 30, 2009.

Operating Results for the Three Months Ended June 30, 2009

(In Thousands)	PNB	VIS	All Other	Total
Net Interest Income	$ 59,113	$ 5,975	$ 2,906	$ 67,994
Provision for Loan Losses	5,428	9,900	528	15,856
Other Income and Security Gains	26,289	728	80	27,097
Other Expense	39,460	7,554	3,137	50,151
Net Income (Loss)	27,635	<6,606>	278	21,307
Balances at June 30, 2009				
Assets	$ 6,109,671	$ 878,482	$ 19,457	$ 7,007,610

Operating Results for the Three Months Ended June 30, 2008

(In Thousands)	PNB	VIS	All Other	Total
Net Interest Income	$ 55,123	$ 6,835	$ 2,368	$ 64,326
Provision for Loan Losses	2,670	11,455	444	14,569
Other Income and Security Gains	17,929	1,042	159	19,130
Other Expense	33,405	7,310	3,718	44,433
Net Income (Loss)	24,682	<6,702>	211	18,191
Balances at June 30, 2008				
Assets	$ 6,079,712	$ 932,221	$ <191,700>	$ 6,820,233

Operating Results for the Six Months Ended June 30, 2009

(In Thousands)	PNB	VIS	All Other	Total
Net Interest Income	$ 117,172	$ 13,290	$ 5,765	$ 136,227
Provision for Loan Losses	8,680	18,400	1,063	28,143
Other Income and Security Gains	44,342	1,797	168	46,307
Other Expense	75,591	13,912	6,510	96,013
Net Income (Loss)	52,388	<10,575>	884	42,697

Operating Results for the Six Months Ended June 30, 2008

(In Thousands)	PNB	VIS	All Other	Total
Net Interest Income	$ 107,576	$ 13,681	$ 4,553	$ 125,810
Provision for Loan Losses	4,764	16,255	944	21,963
Other Income and Security Gains	38,043	2,124	311	40,478
Other Expense	67,235	13,438	7,037	87,710
Net Income (Loss)	49,177	<8,534>	526	41,169

The operating results of the Parent Company and Guardian Financial Services Company (GFC) in the All Other column are used to reconcile the segment totals to the consolidated condensed statements of income for the three and six month periods ended June 30, 2009 and 2008. The reconciling amounts for consolidated total assets for both the three and six month periods ended June 30, 2009 and 2008, consist of the elimination of intersegment borrowings and the assets of the Parent Company and GFC which are not eliminated.

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Note 7 Stock Option Plans

Park did not grant any stock options during the six month periods ended June 30, 2009 and 2008. Additionally, no stock options vested during the first six months of 2009 or 2008.

The following table summarizes stock option activity during the first six months of 2009.

	Stock Options	Weighted Average Exercise Price Per Share
Outstanding at December 31, 2008	452,419	$ 102.33
Granted		
Exercised		
Forfeited/Expired	137,193	$ 107.39
Outstanding at June 30, 2009	315,226	$ 100.12

All of the stock options outstanding at June 30, 2009 were exercisable. The aggregate intrinsic value of the outstanding stock options at June 30, 2009 was $0.

No stock options were exercised during the first six months of 2009 or 2008. The weighted average contractual remaining term was 1.5 years for the stock options outstanding at June 30, 2009.

All of the common shares delivered upon exercise of incentive stock options granted under the Park National Corporation 2005 Incentive Stock Option Plan (the 2005 Plan) and the Park National Corporation 1995 Incentive Stock Option Plan (the 1995 Plan) are to be treasury shares. At June 30, 2009, incentive stock options (granted under both the 2005 Plan and 1995 Plan) covering 314,699 common shares were outstanding. The remaining outstanding stock options at June 30, 2009, covering 527 common shares, were granted under a stock option plan (the Security Plan) assumed by Park in the acquisition of Security Banc Corporation in 2001. At June 30, 2009, Park held 1,008,681 treasury shares that are allocated for the stock option plans (including the Security Plan).

Note 8 Mortgage Loans Held For Sale

Mortgage loans held for sale are carried at their fair value as of June 30, 2009 and at the lower of cost or fair value at December 31, 2008. Effective January 1, 2009, Park elected the fair value option of accounting for mortgage loans held for sale that were originated after January 1, 2009. At June 30, 2009, Park had approximately $38.9 million in mortgage loans held for sale. At December 31, 2008, Park had approximately $9.6 million in mortgage loans held for sale. These amounts are included in loans on the consolidated condensed balance sheets.

Note 9 Investment Securities

The amortized cost and fair values of investment securities are shown in the following table. Management performs a quarterly evaluation of investment securities for any other-than-temporary impairment. During 2008, management determined that Park s unrealized losses in the stocks of several financial institutions were other-than-temporarily impaired due to the duration and severity of the losses. Therefore, Park recognized losses of $980 thousand during 2008. For the three and six month periods ended June 30, 2009, Park recognized impairment charges of $375 thousand and $613 thousand, respectively, related to certain investments which triggered other-than-temporary impairment during 2008. These impairment charges represented the difference between each investment s cost and fair value on June 30, 2009. For the three month and six month periods ended June 30, 2008, an impairment charge of $439 thousand was recorded.

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June 30, 2009 Securities Available-for-Sale	(In Thousands) Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Obligations of U.S. Treasury and Other U.S. Government Sponsored Entities	$ 319,900	$ 828	$ 2,707	