

PARK NATIONAL CORP /OH/

Form 10-Q

May 06, 2008

Table of Contents

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

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

For the quarterly period ended March 31, 2008

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 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

(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

13,964,560 Common shares, no par value per share, outstanding at April 30, 2008.

Page 1 of 46

PARK NATIONAL CORPORATION

CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	3-22
<u>Consolidated Condensed Balance Sheets as of March 31, 2008 and December 31, 2007 (unaudited)</u>	3
<u>Consolidated Condensed Statements of Income for the Three Months Ended March 31, 2008 and 2007 (unaudited)</u>	4-5
<u>Consolidated Condensed Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2008 and 2007 (unaudited)</u>	6
<u>Consolidated Condensed Statements of Cash Flows for the Three Months Ended March 31, 2008 and 2007 (unaudited)</u>	7-8
<u>Notes to Consolidated Condensed Financial Statements</u>	9-22
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23-37
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	38
<u>Item 4. Controls and Procedures</u>	39
<u>PART II. OTHER INFORMATION</u>	40-45
<u>Item 1. Legal Proceedings</u>	40
<u>Item 1A. Risk Factors</u>	40-41
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	41-42
<u>Item 3. Defaults Upon Senior Securities</u>	42
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	42-43
<u>Item 5. Other Information</u>	43
<u>Item 6. Exhibits</u>	44
<u>SIGNATURES</u>	46
<u>EX-3.2(D)</u>	
<u>EX-3.2(E)</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents

PARK NATIONAL CORPORATION
Consolidated Condensed Balance Sheets (Unaudited)
(dollars in thousands)

	March 31, 2008	December 31, 2007
Assets:		
Cash and due from banks	\$ 176,350	\$ 183,165
Money market instruments	8,546	10,232
Cash and cash equivalents	184,896	193,397
Interest bearing deposits	1	1
Securities available-for-sale, at fair value (amortized cost of \$1,661,576 and \$1,473,052 at March 31, 2008 and December 31, 2007)	1,684,276	1,474,517
Securities held-to-maturity, at amortized cost (fair value approximates \$205,805 and \$161,414 at March 31, 2008 and December 31, 2007)	207,139	165,421
Other investment securities	64,620	63,165
Loans	4,253,363	4,224,134
Allowance for loan losses	85,848	87,102
Net loans	4,167,515	4,137,032
Bank premises and equipment, net	68,816	66,634
Bank owned life insurance	128,726	119,472
Goodwill and other intangible assets	143,550	144,556
Other assets	131,826	136,907
Total assets	\$6,781,365	\$6,501,102
Liabilities and Stockholders Equity:		
Deposits:		
Noninterest bearing	\$ 711,151	\$ 695,466
Interest bearing	3,808,605	3,743,773

Total deposits	4,519,756	4,439,239
Short-term borrowings	753,953	759,318
Long-term debt	787,512	590,409
Subordinated Debentures	40,000	40,000
Other liabilities	88,965	92,124
Total liabilities	6,190,186	5,921,090

COMMITMENTS AND CONTINGENCIES

Stockholders' Equity:

Common stock (No par value; 20,000,000 shares authorized; 16,151,188 shares issued at 2008 and 16,151,200 shares issued at 2007)	301,213	301,213
Retained earnings	487,443	489,511
Treasury stock (2,186,624 shares at 2008 and 2,186,624 shares at 2007)	(208,104)	(208,104)
Accumulated other comprehensive income (loss), net of taxes	10,627	(2,608)
Total stockholders' equity	591,179	580,012
Total liabilities and stockholders' equity	\$6,781,365	\$6,501,102

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PARK NATIONAL CORPORATION**
Consolidated Condensed Statements of Income (Unaudited)

(dollars in thousands, except per share data)

	Three Months Ended	
	March 31,	
	2008	2007
Interest and dividends income:		
Interest and fees on loans	\$ 79,010	\$71,182
Interest and dividends on:		
Obligations of U.S. Government, its agencies and other securities	20,705	18,547
Obligations of states and political subdivisions	654	813
Other interest income	99	294
Total interest and dividends income	100,468	90,836
Interest expense:		
Interest on deposits:		
Demand and savings deposits	7,358	8,097
Time deposits	19,199	17,581
Interest on borrowings:		
Short-term borrowings	4,751	3,918
Long-term debt	7,676	6,342
Total interest expense	38,984	35,938
Net interest income	61,484	54,898
Provision for loan losses	7,394	2,205
Net interest income after provision for loan losses	54,090	52,693

Other income:		
Income from fiduciary activities	3,573	3,504
Service charges on deposit accounts	5,784	4,847
Other service income	3,077	2,505
Other	8,605	5,318
Total other income	21,039	16,174
Gain on sale of securities	309	

Continued

4

Table of Contents

PARK NATIONAL CORPORATION
Consolidated Condensed Statements of Income (Unaudited)
(Continued)

(dollars in thousands, except per share data)

	Three Months Ended	
	March 31,	
	2008	2007
Other expense:		
Salaries and employee benefits	\$ 24,671	\$ 23,061
Occupancy expense	3,025	2,560
Furniture and equipment expense	2,317	2,176
Other expense	13,264	11,512
Total other expense	43,277	39,309
Income before income taxes	32,161	29,558
Income taxes	9,183	8,495
Net income	\$ 22,978	\$ 21,063
Per Share:		
Net income:		
Basic	\$ 1.65	\$ 1.49
Diluted	\$ 1.65	\$ 1.49
Weighted average		
Basic	13,964,572	14,121,331
Diluted	13,964,572	14,138,517
Cash dividends declared	\$ 0.94	\$ 0.93

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PARK NATIONAL CORPORATION****Consolidated Condensed Statements of Changes in Stockholders' Equity (Unaudited)**

(dollars in thousands, except share data)

	Common	Retained	Treasury	Accumulated	Other	Comprehensive
	Stock	Earnings	Stock	Comprehensive	Income	Income
Three Months ended March 31, 2008 and 2007	at Cost		at Cost	(loss)		
BALANCE AT DECEMBER 31, 2006	\$ 217,067	\$ 519,563	(\$143,371)	(\$22,820)		
Net Income		21,063				\$ 21,063
Other comprehensive income (loss), net of tax:						
Unrealized net holding gain on securities available-for-sale, net of taxes \$1,997					3,709	3,709
Total comprehensive income						\$ 24,772
Cash dividends on common stock at \$.93 per share		(12,949)				
Cash payment for fractional shares in dividend reinvestment plan	(1)					
Treasury stock purchased - 52,434 shares			(4,862)			
Treasury stock reissued for stock options - 2,846 shares			233			
Shares issued for Vision Bancshares purchase - 792,937 shares	83,258					
BALANCE AT MARCH 31, 2007	\$ 300,324	\$ 527,677	(\$148,000)	(\$19,111)		
BALANCE AT DECEMBER 31, 2007	\$ 301,213	\$ 489,511	(\$208,104)	(\$2,608)		
Net Income		22,978				\$ 22,978
Other comprehensive income (loss), net of tax:						
Unrealized net holding (loss) on cash flow hedge, net of taxes (\$306)					(568)	(568)
Unrealized net holding gain on securities available-for-sale, net of taxes \$7,432					13,803	13,803
Total comprehensive income						\$ 36,213

Cash dividends on common stock at \$.94 per share	(13,081)			
Postretirement benefit pertaining to endorsement split-dollar life insurance	(11,634)			
FAS 158 measurement date adjustment, net of taxes (\$178)	(331)			
BALANCE AT MARCH 31, 2008	\$ 301,213	\$ 487,443	(\$208,104)	\$ 10,627

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6

Table of Contents

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

	Three Months Ended	
	March 31,	
	2008	2007
Operating activities:		
Net income	\$ 22,978	\$ 21,063
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, accretion and amortization	(128)	(569)
Provision for loan losses	7,394	2,205
Stock dividends on Federal Home Loan Bank stock	(725)	
Realized net investment security (gains)	(309)	
Amortization of core deposit intangibles	1,006	684
Changes in assets and liabilities:		
Increase in other assets	(7,908)	(6,172)
Increase (decrease) in other liabilities	1,884	(671)
Net cash provided from operating activities	24,192	16,540
Investing activities:		
Proceeds from sales of available-for-sale securities	25,309	
Proceeds from maturity of:		
Available-for-sale securities	106,059	195,424
Held-to-maturity securities	164	2,853
Purchases of:		
Available-for-sale securities	(319,139)	(239,330)
Held-to-maturity securities	(41,882)	

Edgar Filing: PARK NATIONAL CORP /OH/ - Form 10-Q

Net (increase) in other investments	(730)	
Net (increase) in loans	(36,299)	(13,530)
Cash paid for acquisition, net		(44,993)
Purchases of bank owned life insurance, net	(8,100)	
Purchases of premises and equipment, net	(4,076)	(10,508)
Net cash used by investing activities	(278,694)	(110,084)

Continued

7

Table of Contents

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

(dollars in thousands)

	Three Months Ended	
	March 31,	
	2008	2007
Financing activities:		
Net increase in deposits	\$ 80,517	\$ 149,848
Net (decrease) in short-term borrowings	(5,365)	(11,324)
Proceeds from exercise of stock options		233
Purchase of treasury stock		(4,862)
Cash payment for fractional shares in dividend reinvestment plan		(1)
Long-term debt issued	200,000	75,100
Repayment of long-term debt	(2,897)	(77,680)
Cash dividends paid	(26,254)	(25,896)
Net cash provided from financing activities	246,001	105,418
(Decrease) increase in cash and cash equivalents	(8,501)	11,874
Cash and cash equivalents at beginning of year	193,397	186,256
Cash and cash equivalents at end of period	\$184,896	\$ 198,130
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	\$ 38,396	\$ 35,829
Income taxes	\$ 1,000	\$ 2,600

Summary of business acquisition:	
Fair value of assets acquired	\$ 686,512
Cash paid for purchase of Vision Bancshares	(87,843)
Stock issued for purchase of Vision Bancshares	(83,258)
Fair value of liabilities assumed	(624,432)
Goodwill recognized	(\$109,021)

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8

Table of Contents

PARK NATIONAL CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2008 and 2007.

Note 1 Basis of Presentation

The consolidated financial statements included in this report have been prepared by Park National Corporation (the Registrant, Corporation, Company, or Park) without audit. In the opinion of management, all adjustments (consisting solely 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 quarter ended March 31, 2008 are not necessarily indicative of the operating results to be anticipated for the fiscal year ending December 31, 2008.

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. 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, 2007 from Park's 2007 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 2007 Annual Report to Shareholders. For interim reporting purposes, Park follows the same basic accounting policies and considers each interim period as an integral part of an annual period.

Note 2 Acquisitions and Intangible Assets

On March 9, 2007, Park acquired all of the stock and outstanding stock options of Vision Bancshares, Inc. for \$87.8 million in cash and 792,937 shares of Park common stock valued at \$83.3 million or \$105.00 per share. The goodwill recognized as a result of this acquisition was \$109.0 million. Substantially, none of the goodwill is tax deductible. Management continues to expect that the acquisition of Vision will improve the future growth rate for Park's loans and deposits. The fair value of the acquired assets of Vision was \$686.5 million and the fair value of the liabilities assumed was \$624.4 million at March 9, 2007.

During the first quarter of 2008, loans at Vision Bank have grown by \$26 million to \$666 million at March 31, 2008. For the twelve months ended March 31, 2008, Vision Bank had loan growth of \$67 million or 11.3%, while the Ohio-based banks had loan growth of \$97 million or 2.8% for the same period.

Additional information pertaining to Park's acquisitions made during 2007 is discussed in Note 2 of the Notes to Consolidated Financial Statements included in Park's 2007 Annual Report to Shareholders.

The following table shows the activity in goodwill and core deposit intangibles during the first three months of 2008.

(In Thousands)	Goodwill	Core Deposit Intangibles	Total
December 31, 2007	\$ 127,320	\$ 17,236	\$ 144,556
Amortization		<1,006>	<1,006>
March 31, 2008	\$ 127,320	\$ 16,230	\$ 143,550

Table of Contents

The core deposit intangibles are being amortized to expense principally on the straight-line method, over periods ranging from six to ten years. The amortization period for the Vision Bank and the Millersburg branch purchase core deposit intangibles is six years. Management expects that the core deposit amortization expense will be \$1.0 million for the second, third and fourth quarters of 2008.

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

(In Thousands)	Annual Amortization
2008	\$ 4,025
2009	\$ 3,746
2010	\$ 3,422
2011	\$ 2,677
2012	\$ 2,677
Total	\$16,547

Goodwill is evaluated on an annual basis for impairment and otherwise when circumstances warrant. During the fourth quarter of 2007, Park's management determined that the goodwill from the Vision Bank acquisition on March 9, 2007 could possibly be impaired due to the significant deterioration in the credit condition of Vision Bank.

Nonperforming loans at Vision Bank increased from \$26.3 million at September 30, 2007 to \$63.5 million at December 31, 2007 or 9.9% of year-end loan balances. Net loan charge-offs were \$6.4 million for the fourth quarter or an annualized 3.99% of average loan balances. Management determined that due to these severe credit conditions, a valuation of the fair value of Vision Bank be computed to determine if the goodwill of \$109.0 million was impaired. Management determined that an impairment charge of \$54.0 million was appropriate; therefore, the current carrying value of goodwill resulting from the Vision acquisition is \$55.0 million at March 31, 2008.

Goodwill for the Ohio-based banks was evaluated during the first quarter of 2008, and no impairment charge was necessary.

Note 3 Allowance for Loan Losses

The allowance for loan losses is that amount believed 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. Commercial loans are individually risk graded. Where appropriate, reserves are allocated to individual loans based on management's estimate of the borrower's ability to repay the loan given the availability of collateral and other sources of cash flow. Homogenous loans, such as consumer installment loans and residential mortgage loans are not individually risk graded. Reserves are established for each pool of loans based on historical loan loss experience, current economic conditions, loan delinquency and other environmental factors.

Table of Contents

The following table shows the activity in the allowance for loan losses for the three months ended March 31, 2008 and 2007.

	(In Thousands)	Three Months Ended	
		2008	2007
Average Loans		\$4,229,423	\$3,631,168
Allowance for Loan Losses:			
Beginning Balance			