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

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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,		Six Months Ended June 30,	
	2009	2008	**2009**	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

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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	Six Months Ended June 30, 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.

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.

(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
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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(In Thousands)

June 30, 2009 Securities Available-for-Sale	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	$ 318,021
Obligation of States and Political Subdivisions	22,521	527	37	23,011
U.S. Government Sponsored Entities Asset-Backed Securities	1,004,189	46,062	1	1,050,250
Equity Securities	961	556	122	1,395
Total	$ 1,347,571	$ 47,973	$ 2,867	$ 1,392,677

June 30, 2009 Securities Held-to-Maturity	Amortized Cost	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Estimated Fair Value
Obligations of States and Political Subdivisions	$ 8,229	$ 45	$	$ 8,274
U.S. Government Sponsored Entities Asset-Backed Securities	443,795	11,967	55	455,707
Total	$ 452,024	$ 12,012	$ 55	$ 463,981

(In Thousands)

December 31, 2008 Securities Available-for-Sale	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	$ 127,628	$ 1,060	$	$ 128,688
Obligation of States and Political Subdivisions	26,424	503	33	26,894
U.S. Government Sponsored Entities Asset-Backed Securities	1,357,710	47,050	229	1,404,531
Equity Securities	1,461	428	106	1,783
Total	$ 1,513,223	$ 49,041	$ 368	$ 1,561,896

December 31, 2008 Securities Held-to-Maturity	Amortized Cost	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Estimated Fair Value
Obligations of States and Political Subdivisions	$ 10,294	$ 79	$	$ 10,373
	418,056	5,035	29	423,062

U.S. Government Sponsored Entities Asset-Backed Securities								
Total	$	428,350	$	5,114	$	29	$	433,435

The unrealized losses on debt securities are primarily the result of interest rate changes, credit spread widening on agency-issued mortgage related securities, general financial market uncertainty and unprecedented market volatility. Management believes these conditions will not prohibit Park from receiving its contractual principal and interest payments on its debt securities.

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Note 10 Other Investment Securities

Other investment securities consist of stock investments in the Federal Home Loan Bank and the Federal Reserve Bank. These restricted stock investments are carried at their redemption value.

(In Thousands)	June 30, 2009	December 31, 2008
Federal Home Loan Bank Stock	$ 62,043	$ 61,929
Federal Reserve Bank Stock	6,876	6,876
Total	$ 68,919	$ 68,805

Note 11 Pension Plan

Park has a noncontributory defined benefit pension plan covering substantially all of its employees. The plan provides benefits based on an employee s years of service and compensation.

Park s funding policy is to contribute annually an amount that can be deducted for federal income tax purposes using a different actuarial cost method and different assumptions from those used for financial reporting purposes. Park made a pension plan contribution of $20.0 million in January 2009.

The following table shows the components of net periodic benefit expense:

(In Thousands)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Service Cost	$ 953	$ 863	$ 1,906	$ 1,726
Interest Cost	858	789	1,716	1,578
Expected Return on Plan Assets	<1,089>	<1,152>	<2,179>	<2,304>
Amortization of Prior Service Cost	8	8	17	16
Recognized Net Actuarial Loss	511		1,021	
Benefit Expense	$ 1,241	$ 508	$ 2,481	$ 1,016

Note 12 Derivative Instruments

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Additionally, SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of SFAS No. 133, requires enhanced disclosures about an entity s derivative and hedging activities. As required by SFAS No. 133, the Company records all derivatives on the consolidated balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

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For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified into earnings when the hedged transaction affects earnings, with any ineffective portion of changes in the fair value of the derivative recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged item or transaction.

During the first quarter of 2008, the Company executed an interest rate swap to hedge a $25 million floating-rate subordinated note that was entered into by Park during the fourth quarter of 2007. The Company s objective in using this derivative is to add stability to interest expense and to manage its exposure to interest rate risk. Our interest rate swap involves the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreement without exchange of the underlying principal amount, and has been designated as a cash flow hedge.

As of June 30, 2009, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Company does not use derivatives for trading or speculative purposes.

At June 30, 2009, the derivative s fair value of <$1.4> million was included in other liabilities. No hedge ineffectiveness on the cash flow hedge was recognized during the quarter. At June 30, 2009, the variable rate on the $25 million subordinated note was 2.60% (3-month LIBOR plus 200 basis points) and Park was paying 6.01% (4.01% fixed rate on the interest rate swap plus 200 basis points).

For the six months ended June 30, 2009, the change in the fair value of the derivative designated as a cash flow hedge reported in other comprehensive income was $336 thousand (net of taxes of $180 thousand). Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company s variable-rate debt.

As of June 30, 2009, Park had mortgage loan rate lock commitments outstanding of approximately $29.2 million. Park has specific forward contracts to sell each of these loans to a third party investor. These loan commitments represent derivative instruments, which are required to be carried at fair value. The derivative instruments used are not designated as hedges under SFAS No. 133. At June 30, 2009, the fair value of the derivatives was approximately $0.3 million. The fair value of the derivatives are included within loans held for sale and the corresponding income is included within other service income. Gains and losses resulting from expected sales of mortgage loans are recognized when the respective loan contract is entered into between the borrower, Park, and the third party investor. The fair value of Park s mortgage interest rate lock commitments (IRLCs) is based on current secondary market pricing.

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Note 13 Loan Servicing

Park serviced sold mortgage loans of $1,460 million at June 30, 2009, compared to $1,395 million at June 30, 2008. At June 30, 2009, $58.5 million of the sold mortgage loans were sold with recourse compared to $65.5 million at June 30, 2008. Management closely monitors the delinquency rates on the mortgage loans sold with recourse. At June 30, 2009, management determined that no liability was deemed necessary for these loans.

When Park sells mortgage loans with servicing rights retained, servicing rights are initially recorded at fair value. Park adopted SFAS No. 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140*, on January 1, 2007, and selected the amortization method, whereby the servicing rights capitalized are amortized in proportion to and over the period of estimated future servicing income of the underlying loan. At the end of each reporting period, the carrying value of mortgage servicing rights (MSRs) is assessed for impairment with a comparison to fair value. MSRs are carried at the lower of their cost or fair value.

Activity for MSRs and the related valuation allowance follows:

(In Thousands)	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Mortgage Servicing Rights:		
Carrying Amount, Net, Beginning of Period	$ 8,762	$ 8,306
Additions	1,954	3,792
Amortization	<1,320>	<2,906>
Changes in Valuation Inputs & Assumptions	532	736
Carrying Amount, Net, End of Period	$ 9,928	$ 9,928
Valuation Allowance:		
Beginning of Period	$ <1,441>	$ <1,645>
Changes Due to Fair Value Adjustments	532	736
End of Period	$ <909>	$ <909>

Servicing fees included in other service income were $1.5 million for the three months ended June 30, 2009, and $2.8 million for the first half of 2009.

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Note 14 Fair Value

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that Park uses to measure fair value are as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Level 1 inputs for assets or liabilities that are not actively traded. Also consists of an observable market price for a similar asset or liability. This includes the use of matrix pricing used to value debt securities absent the exclusive use of quoted prices.

Level 3: Consists of unobservable inputs that are used to measure fair value when observable market inputs are not available. This could include the use of internally developed models, financial forecasting, etc.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability between market participants at the balance sheet date. When possible, the Company looks to active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, the Company looks to observable market data for similar assets and liabilities. However, certain assets and liabilities are not traded in observable markets and Park must use other valuation methods to develop a fair value. The fair value of impaired loans is based on the fair value of the underlying collateral, which is estimated through third party appraisals or internal estimates of collateral values.

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Assets and Liabilities Measured on a Recurring Basis:

The following table presents financial assets and liabilities measured on a recurring basis:

Fair Value Measurements at June 30, 2009 Using:

(In Thousands)

Description	Level 1	Level 2	Level 3	Balance at June 30, 2009
Assets				
Investment Securities				
Obligations of U.S. Treasury and Other U.S. Government Sponsored Entities	$	$ 318,021	$	$ 318,021
Obligations of States and Political Subdivisions		20,213	2,798	23,011
U.S. Government Sponsored Entities Asset-Backed Securities		1,050,250		1,050,250
Equity Securities	1,395			1,395
Mortgage Loans Held for Sale		38,891		38,891
Mortgage IRLCs		347		347
Liabilities				
Interest Rate Swap	$	$ <1,421>	$	$ <1,421>

Fair Value Measurements at December 31, 2008 Using:

(In Thousands)

Description	Level 1	Level 2	Level 3	Balance at December 31, 2008
Assets				
Investment Securities				
Obligations of U.S. Treasury and Other U.S. Government Sponsored Entities	$	$ 128,688	$	$ 128,688
Obligations of States and Political Subdivisions		24,189	2,705	26,894
U.S. Government Sponsored Entities Asset-Backed Securities		1,404,531		1,404,531
Equity Securities	1,783			1,783
Liabilities				
Interest Rate Swap	$	$ <1,937>	$	$ <1,937>

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The table below is a reconciliation of the beginning and ending balances of the Level 3 inputs:

Fair Value Measurements at Reporting Date Using

Significant Unobservable Inputs (Level 3)

(In Thousands)		Available for Sale Securities
Beginning Balance, at January 1, 2009	$	2,705
Total Gains/(Losses)		
Included in Earnings		
Included in Other Comprehensive Income		93
Ending Balance June 30, 2009	$	2,798
Beginning Balance, at January 1, 2008	$	2,969
Total Gains/(Losses)		
Included in Earnings		
Included in Other Comprehensive Income		<128>
Ending Balance June 30, 2008	$	2,841

Assets and Liabilities Measured on a Nonrecurring Basis:

The following table presents financial assets and liabilities measured on a nonrecurring basis:

Fair Value Measurements at June 30, 2009 Using

(In Thousands)

Description	(Level 1)	(Level 2)	(Level 3)	Balance at June 30, 2009
SFAS No. 114 Impaired Loans	$	$	$ 116,192	$ 116,192
Mortgage Servicing Rights		9,928		9,928

Fair Value Measurements at December 31, 2008 Using

(In Thousands)

Description	(Level 1)	(Level 2)	(Level 3)	Balance at December 31, 2008
SFAS No. 114 Impaired Loans	$	$	$ 75,942	$ 75,942
Mortgage Servicing Rights		8,306		8,306

Impaired loans, which are usually measured for impairment using the fair value of collateral, had a carrying amount of $184.0 million at June 30, 2009, after partial charge-offs of $33.5 million. In addition, these loans have a specific valuation allowance of $13.5 million. Of the $184.0 million impaired loan portfolio, $116.2 million were carried at fair value, as a result of the aforementioned charge-offs and specific valuation allowance. The remaining $67.8 million of impaired loans are carried at cost, as the fair value of collateral on these loans exceed book value for each individual credit. At December 31, 2008, impaired loans had a carrying amount of $141.3 million. Of these, $75.9 million were carried at fair value, as a result of partial charge-offs of $30.0 million and a specific valuation allowance of $8.9 million.

MSRs, which are carried at lower of cost or fair value, were recorded at a fair value of $9.9 million, including a valuation allowance of $0.9 million, at June 30, 2009. At December 31, 2008, MSRs were recorded at a fair value of $8.3 million, including a valuation allowance of $1.6 million.

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The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets fair values.

Interest bearing deposits with other banks: The carrying amounts reported in the balance sheet for interest bearing deposits with other banks approximate those assets fair values.

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The table below excludes Park s Federal Home Loan Bank stock and Federal Reserve Bank stock, which are carried at the redemption value, as it is not practicable to calculate their fair values.

Loans receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for certain mortgage loans (e.g., one-to-four family residential) are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. The fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loans carried on the balance sheet at their fair value are broken out separately for 2008, the year of adoption of SFAS No. 157. SFAS No. 157 was adopted prospectively on January 1, 2008.

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 (see Note 8 Mortgage Loans Held for Sale). On January 1, 2009, Park elected the fair value option of accounting for mortgage loans held for sale. Mortgage loans held for sale are estimated using security prices for similar product types, and therefore, are classified in Level 2.

Mortgage Servicing Rights: MSRs do not trade in active, open markets with readily observable prices. For example, sales of MSRs do occur, but precise terms and conditions typically are not readily available. Accordingly, MSRs are classified as Level 2.

Interest Rate Lock Commitments: IRLCs are based on current secondary market pricing and are classified as Level 2.

Off-balance sheet instruments: Fair values for the Corporation s loan commitments and standby letters of credit are based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standing. The carrying amount and fair value are not material.

Deposit liabilities: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts for variable-rate, fixed-term certificates of deposit approximate their fair values at the reporting date. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities of time deposits. Maturities of time deposits in denominations of $100,000 and over at December 31, 2008, maturing in 12 months or less, were $657.3 million and those maturing after 12 months were $149.8 million.

Short-term borrowings: The carrying amounts of federal funds purchased, borrowings under repurchase agreements and other short-term borrowings approximate their fair values.

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Long-term debt: Fair values for long-term debt are estimated using a discounted cash flow calculation that applies interest rates currently being offered on long-term debt to a schedule of monthly maturities.

Subordinated debt: The carrying amounts reported in the balance sheet approximate fair value. The interest rates on these instruments reprice every 90 days based on the three-month LIBOR rate.

Interest rate swaps: The fair value of interest rate swaps represents the estimated amount Park would pay or receive to terminate the agreements, considering current interest rates and the current creditworthiness of the counterparties.

The fair value of financial instruments at June 30, 2009 and December 31, 2008, is as follows:

	June 30, 2009		December 31, 2008	
(In Thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and Money Market Instruments	$ 131,012	$ 131,012	$ 171,261	$ 171,261
Interest Bearing Deposits with Other Banks	1	1	1	1
Investment Securities	1,913,620	1,925,577	2,059,051	2,064,136
Loans Carried at Fair Value	116,192	116,192	75,942	75,942
Other Loans	4,399,030	4,519,123	4,311,484	4,430,697
Loans Receivable, Net	$ 4,515,222	$ 4,635,315	$ 4,387,426	$ 4,506,639
Financial Liabilities:				
Noninterest Bearing Checking	$ 812,959	$ 812,959	$ 782,625	$ 782,625
Interest Bearing Transactions Accounts	1,155,450	1,155,450	1,204,530	1,204,530
Savings	838,376	838,376	694,721	694,721
Time Deposits	2,241,718	2,252,980	2,078,372	2,084,732
Other	4,921	4,921	1,502	1,502
Total Deposits	$ 5,053,424	$ 5,064,686	$ 4,761,750	$ 4,768,110
Short-Term Borrowings	$ 458,529	$ 458,529	$ 659,196	$ 659,196
Long-Term Debt	682,159	735,243	855,558	939,210
Subordinated Debentures	40,000	40,000	40,000	40,000
Derivative Financial Instruments:				
Interest Rate Swap	$ <1,421>	$ <1,421>	$ <1,937>	$ <1,937>

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Note 15 Participation in the U.S. Treasury Capital Purchase Program

On December 23, 2008, Park issued $100 million of cumulative perpetual preferred shares, with a liquidation preference of $1,000 per share (the Senior Preferred Shares). The Senior Preferred Shares constitute Tier 1 capital and rank senior to Park s common shares. The Senior Preferred Shares pay cumulative dividends at a rate of 5% per annum through February 14, 2014 and will reset to a rate of 9% per annum thereafter. For the period ended June 30, 2009, Park recognized a charge to retained earnings of $2.9 million, representing the preferred stock dividend and accretion of the discount on the warrant, associated with its participation in the CPP.

As part of its participation in the CPP, Park also issued a warrant to the U.S. Treasury to purchase 227,376 common shares having an exercise price of $65.97, which is equal to 15% of the aggregate amount of the Senior Preferred Shares purchased by the U.S. Treasury. The initial exercise price for the warrant and the market price for determining the number of common shares subject to the warrant were determined by reference to the market price of the common shares on the date the Company s application for participation in the Capital Purchase Program was approved by the United States Department of the Treasury (calculated on a 20-day trailing average). The warrant has a term of 10 years.

A company that participates in the CPP must adopt certain standards for compensation and corporate governance, established under the American Recovery and Reinvestment Act of 2009 (the ARRA), which amended and replaced the executive compensation provisions of the Emergency Economic Stabilization Act of 2008 (EESA) in their entirety, and the Interim Final Rule promulgated by the Secretary of the U.S. Treasury under 31 C.F.R. Part 30 (collectively, the TARP Compensation Standards). In addition, Park s ability to declare or pay dividends on or repurchase its common shares is restricted as a result of its participation in the CPP.

Note 16 Sale of Common Shares

On May 27, 2009, Park announced that it had entered into a distribution agreement with the investment banking firm of Sandler O Neill & Partners, L.P. (Sandler O Neill). Under this distribution agreement, Park can offer and sell common shares having an aggregate sales proceeds of up to $70 million from time to time through Sandler O Neill as sales agent, provided that the aggregate number of common shares offered and sold under offerings conducted pursuant to this distribution agreement shall not exceed 1,050,000 common shares. In accordance with the distribution agreement, sales of common shares can be made by means of ordinary brokers transactions on NYSE Amex at market prices, in block transactions or as otherwise agreed with Sandler O Neill. During the period from May 28, 2009 through June 30, 2009, Park sold 183,200 common shares at a weighted average sales price of $61.18 with sales proceeds of $11.2 million. Net of selling and due diligence expenses, Park raised $10.5 million in additional equity. At June 30, 2009, Park had the capability under the distribution agreement to sell additional common shares having aggregate sales proceeds of up to $58.8 million provided that the aggregate number of additional common shares sold does not exceed 866,800.

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ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s discussion and analysis contains forward-looking statements that are provided to assist in the understanding of anticipated future financial performance. Forward-looking statements provide current expectations or forecasts of future events and are not guarantees of future performance. The forward-looking statements are based on management s expectations and are subject to a number of risks and uncertainties. Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those expressed or implied in such statements. Risks and uncertainties that could cause actual results to differ materially include, without limitation: deterioration in the asset value of Park s loan portfolio may be worse than expected; Park s ability to execute its business plan successfully and within the expected timeframe; general economic and financial market conditions, and weakening in the economy, specifically, the real estate market and credit market, either national or in the states in which Park and its subsidiaries do business, may be worse than expected which could decrease the demand for loan, deposit and other financial services and increase loan delinquencies and defaults; changes in market rates and prices may adversely impact the value of securities, loans, deposits and other financial instruments and the interest rate sensitivity of our consolidated balance sheet; changes in consumer spending, borrowing and saving habits; our liquidity requirements could be adversely affected by changes in our assets and liabilities; our ability to convert our Ohio-based banking divisions into one operating system; competitive factors among financial institutions increase significantly, including product and pricing pressures and our ability to attract, develop and retain qualified bank professionals; the nature, timing and effect of changes in banking regulations or other regulatory or legislative requirements affecting the respective businesses of Park and its subsidiaries, including changes in laws concerning taxes, banking, securities and other aspects of the financial services industry; the effect of fiscal and governmental policies of the United States federal government; demand for loans in the respective market areas served by Park and its subsidiaries, and other risk factors relating to the banking industry as detailed from time to time in Park s reports filed with the Securities and Exchange Commission including those described in Item 1A. Risk Factors of Part I of Park s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and in Item 1A. Risk Factors of Part II of this Quarterly Report on Form 10-Q. Undue reliance should not be placed on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Park does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions that may be made to update any forward-looking statement to reflect the events or circumstances after the date on which the forward-looking statement is made, or reflect the occurrence of unanticipated events, except to the extent required by law.

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Critical Accounting Policies

Note 1 of the Notes to Consolidated Financial Statements included in Park s 2008 Annual Report to Shareholders lists significant accounting policies used in the development and presentation of Park s consolidated financial statements. The accounting and reporting policies of Park conform with U.S. generally accepted accounting principles and general practices within the financial services industry. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Park considers that the determination of the allowance for loan losses involves a higher degree of judgment and complexity than its other significant accounting policies. The allowance for loan losses is calculated with the objective of maintaining a reserve level believed by management to be sufficient to absorb probable incurred credit losses in the loan portfolio. Management s determination of the adequacy of the allowance for loan losses is based on periodic evaluations of the loan portfolio and of current economic conditions. However, this evaluation is inherently subjective as it requires material estimates, including expected default probabilities, loss given default, the amounts and timing of expected future cash flows on impaired loans and estimated losses on consumer loans and residential mortgage loans based on historical loss experience and the current economic conditions. All of those factors may be susceptible to significant change. To the extent that actual results differ from management estimates, additional loan loss provisions may be required that would adversely impact earnings for future periods.

Management s assessment of the adequacy of the allowance for loan losses considers individual impaired loans, pools of unimpaired commercial loans, and pools of homogeneous loans with similar risk characteristics and other environmental risk factors. This assessment is updated on a quarterly basis. The allowance established for individual impaired loans reflects expected losses resulting from analyses developed through specific credit allocations for individual loans. The specific credit allocations are based on regular analyses of commercial, commercial real estate and construction loans where the internal credit rating is at or below a predetermined classification. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific impaired loans.

Pools of unimpaired commercial loans and pools of homogeneous loans with similar risk characteristics are also assessed for probable losses. A loss migration analysis is performed on certain commercial, commercial real estate and construction loans. These are loans above a fixed dollar amount that are assigned an internal credit rating. Generally, residential real estate loans and consumer loans are not individually graded. The amount of loan loss reserve assigned to these loans is dependent on their net charge-off history.

Management also evaluates the impact of environmental factors which pose additional risks. Such environmental factors include: national and local economic trends and conditions; experience, ability, and depth of lending management and staff; effects of any changes in lending policies and procedures; levels of, and trends in, consumer bankruptcies, delinquencies, impaired loans and charge-offs and recoveries. The determination of this component of the allowance for loan losses requires considerable management judgment.

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Park s recent adoption of SFAS No. 157 (See Note 14 Fair Value of the Notes to Unaudited Consolidated Condensed Financial Statements in this Quarterly Report on Form 10-Q) on January 1, 2008 required management to establish a fair value hierarchy, which has the objective of maximizing the use of observable market inputs. SFAS No. 157 also requires enhanced disclosures regarding the inputs used to calculate fair value. These are classified as Level 1, 2, and 3. Level 3 inputs are largely unobservable inputs that reflect a company s own assumptions about the market for a particular instrument. Some of these inputs could be based on internal models and cash flow analysis. At June 30, 2009, the Level 3 inputs for Park had an aggregate fair value of approximately $119 million. This was 7.6% of the total amount of assets measured at fair value as of the end of the second quarter. The fair value of impaired loans was approximately $116.2 million (or 98%) of the total amount of Level 3 inputs. The large majority of Park s Level 2 inputs consist of available-for-sale (AFS) securities. The fair value of these AFS securities is obtained largely by the use of matrix pricing, which is a mathematical technique widely used in the financial services industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities.

Management believes that the accounting for goodwill and other intangible assets also involves a higher degree of judgment than most other significant accounting policies. SFAS No. 142, *Accounting for Goodwill and Other Intangible Assets (as amended)*, establishes standards for the amortization of acquired intangible assets and the impairment assessment of goodwill. Goodwill arising from business combinations represents the value attributable to unidentifiable intangible assets in the business acquired. Park s goodwill relates to the value inherent in the banking industry and that value is dependent upon the ability of Park s Ohio-based bank to provide quality, cost-effective banking services in a competitive marketplace. The goodwill value is supported by revenue that is in part driven by the volume of business transacted. A decrease in earnings resulting from a decline in the customer base, the inability to deliver cost-effective services over sustained periods or significant credit problems can lead to impairment of goodwill that could adversely impact earnings in future periods. SFAS No. 142 requires an annual evaluation of goodwill for impairment, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The fair value of the goodwill, which resides on the books of Park s Ohio-based bank, is estimated by reviewing the past and projected operating results for the Park subsidiary banks and the banking industry comparable information.

At June 30, 2009, on a consolidated basis, Park had core deposit intangibles of $11.3 million subject to amortization and $72.3 million of goodwill, which was not subject to periodic amortization, and recorded at The Park National Bank. At June 30, 2009, the core deposit intangible asset recorded on the balance sheet of The Park National Bank was $3.5 million and the core deposit intangible asset at Vision Bank was $7.8 million. During the first quarter of 2009, Park s management evaluated the goodwill for Park s Ohio-based bank for impairment and concluded that the fair value of the goodwill for Park s Ohio-based bank exceeded the carrying value of $72.3 million and accordingly was not impaired. Please see Note 3 Goodwill and Intangible Assets of the Notes to Unaudited Consolidated Condensed Financial Statements in this Quarterly Report on Form 10-Q for additional information on intangible assets.

Comparison of Results of Operations
For the Three and Six Months Ended June 30, 2009 and 2008

Summary Discussion of Results

Net income for the three months ended June 30, 2009 was $21.3 million compared to $18.2 million for the second quarter of 2008, an increase of $3.1 million or 17.1%. Net income available to common shareholders (which excludes the preferred stock dividends) was $19.9 million for the second quarter of 2009 compared to $18.2 million for the three months ended June 30, 2008. Preferred stock dividends and accretion of the discount on the warrant, pertaining to the $100 million of preferred stock issued to the U.S. Treasury on December 23, 2008, were $1.44 million for the second quarter of 2009. The increase in net income available to common shareholders for the second quarter of 2009 compared to the second quarter of 2008 was $1.7 million or 9.2%. Diluted earnings per common share were $1.42 for the three months ended June 30, 2009 compared to $1.30 for the second quarter of 2008, an increase of 9.2%.

Net income for the first half of 2009 was $42.7 million compared to $41.2 million for the first six months of 2008, an increase of $1.5 million or 3.7%. Net income available to common shareholders was $39.8 million for the first six months of 2009 compared to $41.2 million for the same period in 2008, a decrease of $1.4 million or 3.3%. The preferred stock dividend and the accretion on the warrant totaled $2.9 million for the first half of 2009. Diluted earnings per common share were $2.85 for the six months ended June 30, 2009 compared to $2.95 for the first half of 2008, a decrease of 3.4%.

The following tables compare the components of net income for the three and six month periods ended June 30, 2009 with the components of net income for the three and six month periods ended June 30, 2008. This information is provided for Park, Vision Bank and Park excluding Vision Bank. In general for 2009, the operating results for Park s Ohio-based banking divisions have been better than management projected, but the credit losses at Vision Bank have been worse than expected.

Park Summary Income Statement
(In Thousands)

	Three Months Ended June 30,			Six Months Ended June 30,		
	June 30, 2009	June 30, 2008	% Change	June 30, 2009	June 30, 2008	% Change
Net Interest Income	$ 67,994	$ 64,326	5.7%	$ 136,227	$ 125,810	8.3%
Provision for Loan Losses	15,856	14,569	8.8%	28,143	21,963	28.1%
Other Income	19,757	18,543	6.5%	38,967	39,582	<1.6%>
Gain on Sale of Securities	7,340	587	1,150.4%	7,340	896	719.2%
Other Expense	50,151	44,433	12.9%	96,013	87,710	9.5%