AMERICAN TECHNOLOGY CORP /DE/
Form S-3/A
March 25, 2005

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 25, 2005 REGISTRATION NO. 333-122264

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-3/A
(Amendment No. 1)

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

AMERICAN TECHNOLOGY CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	13114 Evening Creek Drive South San Diego, California 92128 (858) 679-2114 (Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)	87-0361799 (I.R.S. Employer Identification Number)

Kalani Jones
President and Chief Operating Officer
AMERICAN TECHNOLOGY CORPORATION
13114 Evening Creek Drive South
San Diego, California 92128
(858) 679-2114
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
From time to time after this registration statement becomes effective

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING STOCKHOLDER MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND THE SELLING STOCKHOLDER IS NOT SOLICITING OFFERS TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED MARCH 25, 2005

PROSPECTUS

AMERICAN TECHNOLOGY CORPORATION

3,959,782 SHARES
COMMON STOCK

This prospectus may be used only for the resale of up to 3,959,782 shares of common stock by Kingsbridge Capital Limited. Kingsbridge is sometimes referred to in this prospectus as the selling stockholder. Kingsbridge may acquire these shares from us pursuant to a Committed Equity Financing Facility and upon exercise of a warrant that we issued to Kingsbridge in connection with the Committed Equity Financing Facility. Kingsbridge will receive all of the proceeds from the sale of the shares of common stock under this prospectus and we will pay all underwriting discounts and selling commissions, if any, applicable to the sale of such shares. We will pay the expenses incurred in registering the shares, including legal and accounting fees. However, we will receive the proceeds from the sale of shares of common stock to Kingsbridge under the Committed Equity Financing Facility or upon the exercise of the warrant.

Kingsbridge is an underwriter within the meaning of the Securities Act of 1933 with respect to this offering.

Our common stock is quoted on the NASDAQ SmallCap Market under the symbol ATCO. On March 22, 2005, the last reported sale price for our common stock on the NASDAQ SmallCap Market was $8.90 per share.

The securities offered involve a high degree of risk. See Risk Factors commencing on page 3 of this prospectus for a discussion of these risks.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus ________________, 2005

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INFORMATION CONTAINED IN THIS PROSPECTUS

You should rely only on the information we have provided or incorporated by reference in this prospectus. Neither we nor the selling stockholder have authorized anyone to provide you with additional or different information. The selling stockholder is not making an offer of these securities in any jurisdiction where the offer is not permitted. You should assume that the information in this prospectus is accurate only as of the date on the front of the document and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference.

In this prospectus, unless otherwise indicated, our company, we, us or our refer to American Technology Corporation.

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THE COMPANY

We are an innovator of proprietary sound reproduction technologies and products. We believe our innovative proprietary sound technologies provide us a significant competitive advantage in our principal markets. We believe we are the leader in developing and commercializing parametric loudspeakers, branded as HyperSonic® sound or HSS®. We believe we are also the leader in developing and commercializing high intensity directed acoustical devices, branded as our Long Range Acoustic Device or LRAD . We have filed over 70 patent applications in the United States, and over 90 patent applications internationally covering our various sound technologies and products.

We make significant investments in research and development to expand our technology and product portfolio. We are expanding our LRAD product family, introducing a new NeoPlanar product line for emergency notification and general announcing markets which require high intelligibility, and are utilizing our products to provide solutions for difficult acoustic challenges. We offer our products for sale worldwide, but expect the largest markets to be the United States, Europe and Asia.

Our four major products from our technology portfolio are listed below.

Our HyperSonic sound, or HSS, technology is a new parametric speaker technology that creates sound in the air. Sound is generated along an air column using ultrasonic frequencies, which are those above the normal range of hearing. The HSS sound beam is highly directional and maintains sound volume over longer distances than traditional loudspeakers. We believe our substantial intellectual property portfolio and pioneering HSS products support our leadership position in the field of parametric non-linear acoustics for sound reproduction. In October 2004, we released our HSS Generation III (T120 and T220) product family, which has higher reliability, lower distortion and higher output levels than previous models of our HSS products.

Our Long Range Acoustic Device, or LRAD technology produces variable intensity acoustical sound intended for use in long-range delivery of directional sound information, which is effectively a supercharged megaphone. LRAD products are designed and used as directed long-range hailing and warning systems by both government and commercial customers. We believe our LRAD product innovation, our growing engineering capabilities, and our manufacturing and marketing competencies have established us as the leader in this new marketplace. We are marketing LRAD throughout the U.S. Department of Defense as The Sound of Force Protection , and our markets are expanding to include law enforcement and commercial customers with significant security concerns. In fiscal 2004, we developed a remote controlled pan/tilt version of LRAD for critical infrastructure force protection applications, and we demonstrated our competency to engineer additional new sound solutions for the U.S. Department of Defense.

Our NeoPlanar® technology is a thin film magnetic speaker that produces sound of high quality, low distortion and high volume. NeoPlanar applications include high-end sound, emergency notification and public address systems. In fiscal 2004, we began marketing NeoPlanar for use in large indoor spaces and in outdoor environments for emergency notification. NeoPlanar offers customers a new capability by delivering remarkably intelligible communications in difficult spaces such as aircraft hangar bays and at distances up to one-half mile.

Our SoundCluster technology is a new multi-element speaker cluster optimized for even sound coverage over large areas. Our SoundCluster product offers an improved level of intelligibility and clarity in high ambient noise environments. The SoundCluster satisfies flight deck safety and large area emergency notification requirements. The flexible and ruggedized SoundCluster design lends itself to installation in harsh environments, where conventional speakers may fail. During fiscal 2004, we deployed the first SoundCluster for use on a U.S. naval warship.

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We believe we are uniquely equipped to provide our technologies and products in rapidly growing markets for new sound applications not currently served by conventional sound devices and as an alternative to conventional loudspeakers. We believe market factors such as the rapid growth of plasma and flat panel screens offer significant growth opportunities for our HSS focused sound solutions. We also believe that the growth in defense and homeland security and related protection spending by commercial customers provides a growing market for our sound products to be used for intelligible communication over long distances.

The number of shares included in this prospectus is approximately 19.99% of our common shares outstanding on December 31, 2004, and 16.66% of our common stock after giving effect to the 3,959,782 shares included in this prospectus that may be issued pursuant to the Common Stock Purchase Agreement we entered into with Kingsbridge, including any shares that we may issue in payment of liquidated damages, and upon exercise of the warrant we entered into with Kingsbridge.

Our shares of common stock trade through the NASDAQ SmallCap Market under the symbol ATCO. Our address is 13114 Evening Creek Drive South, San Diego, California, our telephone number is 858-679-2114 and our internet website is located at www.atcsd.com. The information on our website is not part of this prospectus.

THE OFFERING

On December 14, 2004, we entered into a Common Stock Purchase Agreement with Kingsbridge Capital Limited which established a Committed Equity Financing Facility. Under the Committed Equity Financing Facility we may, at our sole discretion, sell to Kingsbridge and Kingsbridge has committed to purchase subject to certain significant limitations and conditions precedent, up to $25,000,000 of our common stock. As part of this arrangement, we issued a warrant to Kingsbridge to purchase 275,000 shares of our common stock at a price of $8.60 per share. The warrant is exercisable beginning June 14, 2005 and until June 14, 2010.

Kingsbridge is the selling stockholder under this prospectus, is offering for sale up to 3,959,782 shares of our common stock that it may acquire under the Committed Equity Financing Facility, including any shares that we may issue in payment of liquidated damages, or upon exercise of the warrant. The number of shares ultimately offered for sale by Kingsbridge is dependent upon the number of shares (i) we may decide to sell to Kingsbridge under the Committed Equity Financing Facility at our sole discretion, subject to certain significant limitations and conditions precedent, (ii) that we may elect to issue in lieu of paying liquidated damages that may be owed to Kingsbridge in the event that the effectiveness of the registration statement, of which this prospectus is a part, is suspended, and (iii) we may be required to sell to Kingsbridge upon exercise of the warrant. Kingsbridge does not have the right or the obligation to purchase our stock under the Committed Equity Financing Facility in the event that our stock is trading below $3.41 per share.

We will not receive any proceeds from the sale of any of the shares offered and sold by Kingsbridge. However, we may receive up to $25 million in gross proceeds from the sale of our stock to Kingsbridge under the Committed Equity Financing Facility, and up to approximately $2.4 million upon exercise of the warrant. The number of shares we sell to Kingsbridge under the Committed Equity Financing Facility is determined based on a price that is between 88% and 92% of the volume weighted average of the price of our common stock for each of the fifteen trading days following our election to sell, or draw down, shares for a fixed dollar amount of sales proceeds. Each draw down amount is limited to a maximum of 3% of our market capitalization at the time of the election, and cannot in any case exceed $10 million. For example, if we were to elect, and if we were permitted under the terms of our agreement with Kingsbridge, to give draw down notices over time for the full $25 million commitment, and if the volume weighted average price of our common stock throughout each of the fifteen trading day draw down periods were to be equal to the closing market price of our common stock on March 22, 2005, or $8.90 per share, we would sell to Kingsbridge 3,121,099 shares of our common stock, which represents 12.8% of our shares outstanding on March 22, 2005, giving effect to the sale of such shares (but not the exercise of the warrant issued to Kingsbridge). This estimate of the number of shares to be sold assumes that our stock price would remain constant during each fifteen trading day draw down period, and across the multiple draw down periods that would be required for us to draw down the entire $25 million commitment, given the limitations on each draw down. This assumption is not realistic, particularly since Kingsbridge s resale of the shares purchased during each fifteen trading day draw down period may cause the volume weighted average price of our common stock to decline over the draw down period, resulting in the sale of additional shares to Kingsbridge for the same monetary proceeds to us. See Risk Factors beginning on page 3 and The Committed Equity Financing Facility beginning on page 16.

We are obligated to use 40% of any funds we receive from sales of shares under the Committed Equity Financing Facility, but not funds we receive upon exercise of the warrant, to prepay any outstanding interest and principal under promissory notes we sold in December 2004 with an aggregate principal amount of $2 million. We plan to use all other funds received from Kingsbridge under the Committed Equity Financing Facility and upon exercise of the warrant, as disclosed below under Use of Proceeds.

RISK FACTORS

An investment in our company involves a high degree of risk. In addition to the other information included in this prospectus, you should carefully consider the following risk factors in determining whether or not to purchase the shares of common stock offered under this prospectus. You should consider these matters in conjunction with the other information included or incorporated by reference in this prospectus. Our results of operations or financial condition could be seriously harmed, and the trading price of our common stock may decline due to any of these or other risks.

This prospectus contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this prospectus and include statements regarding the intent, belief or current expectations of our management, directors or officers primarily with respect to our future operating performance. Prospective purchasers of our securities are cautioned that these forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in the forward-looking statements due to various factors. The accompanying information contained in this prospectus, including the information set forth below, identifies important factors that could cause these differences. See Special Note Regarding Forward-Looking Statements.

We have a history of net losses. We expect to continue to incur net losses and we may not achieve or maintain profitability.

We have incurred significant operating losses and anticipate continued losses in fiscal 2005. At December 31, 2004, we had an accumulated deficit of $43,854,343. In addition, for the fiscal quarter ended December 31, 2004, we incurred a net loss of $1,526,850. We need to generate additional revenue to be profitable in future periods. Failure to achieve profitability, or maintain profitability if achieved, may cause our stock price to decline.

We may need additional capital for growth.

Our current plans indicate that depending on sales, we may need additional capital to support our growth. We may generate a portion of these funds from operations.

The actual amount of funds that we will need will be determined by many factors, some of which are beyond our control, and we may need funds sooner than currently anticipated. Principal factors that could affect the availability of our internally generated funds include:

- government spending levels;
- introduction of new competing technologies;
- failure of sales from our Government and Force Protection Group, or Government Group, and our Business Products and Licensing Group to meet planned projections;
- product mix and effect on margins; and
- acceptance of our products in new markets.

When we require additional funds, general market conditions or the then-current market price of our common stock may not support capital raising transactions. If we require additional funds and we are unable to obtain them on a timely basis or on terms favorable to us, we may be required to scale back our research and development efforts, sell or license some or all of our technology or assets or curtail or cease operations. If we raise additional funds by selling additional shares of our capital stock or securities convertible into common stock, the ownership interest of our stockholders will be diluted.

If our stock price falls below $3.41 per share we will be unable to draw down on the Committed Equity Financing Facility unless the stock price increases. The potential unavailability of this facility would negatively affect our financing activities.

We have entered into a Committed Equity Financing Facility with Kingsbridge Capital Limited. Under the terms of our agreement with Kingsbridge, we may, at our sole discretion, sell to Kingsbridge, and Kingsbridge would be obligated to purchase, shares of our common stock for up to $25 million in proceeds to us. The price at which we may sell shares of common stock under the agreement is based on a discount to the volume weighted average market price of the common stock for fifteen trading days following each of our elections to sell shares. For each election to sell shares, we select the lowest threshold price at which our stock may be sold, but the threshold price cannot be lower than $3.00 per share. In the event the market price of our common stock falls below $3.41 per share, which after giving effect to the discount would result in a price per share lower that the $3.00 minimum threshold price, the Committed Equity Financing Facility will not be an available source of financing. Our stock has traded below $3.41 per share during many periods in the past, including most recently during May 2003. In addition, we are obligated to use 40% of the proceeds we may raise from the Committed Equity Financing Facility to prepay any outstanding interest and principal on promissory notes we sold in December 2004 with an aggregate principal amount of $2 million. Our agreement with Kingsbridge permits Kingsbridge to terminate the Committed Equity Financing Facility if Kingsbridge determines that a material and adverse event has occurred affecting the business, operations, properties or financial condition of our company, or if any situation occurs that would interfere with our ability to perform any of our obligations under the agreement.

If we are unable to draw down on the Committed Equity Financing Facility, and are otherwise unable to obtain capital from other sources on a timely basis or on terms favorable to us, we may be required to scale back our marketing and research and development efforts, sell or license some or all of our technology or assets or curtail or cease operations.

If Kingsbridge determines that a material and adverse event has occurred that affects our company, we will be unable to draw down on the Committed Equity Financing Facility. The potential unavailability of this facility would negatively affect our financing activities.

Our agreement with Kingsbridge permits Kingsbridge to terminate the Committed Equity Financing Facility if Kingsbridge determines that a material and adverse event has occurred affecting the business, operations, properties or financial condition of our company, or if any situation occurs that would interfere with our ability to perform any of our obligations under the agreement. If we are unable to draw down on the Committed Equity Financing Facility, and are otherwise unable to obtain capital from other sources on a timely basis or on terms favorable to us, we may be required to scale back our marketing and research and development efforts, sell or license some or all of our technology or assets or curtail or cease operations.

Each advance under the Committed Equity Financing Facility in limited. We may not draw down on the Committed Equity Financing Facility when Kingsbridge beneficially owns in excess of 9.9% of our outstanding shares. The potential unavailability of this facility would negatively affect our financing activities.

Each draw down election we make is limited to a maximum of 3% of our market capitalization at the time of the election, and cannot in any case exceed $10 million. We must also wait at least five trading days after the end of a fifteen trading day draw down period before we can commence the next draw down. In addition, the Committed Equity Financing Facility limits the beneficial ownership of Kingsbridge to 9.9% of our outstanding common stock, which percentage includes any shares of common stock purchased pursuant to the Committed Equity Financing Facility, that we may issue as liquidated damages, and issued upon exercise of the warrant. Depending on the market price of our common stock and Kingsbridge s other holdings of our common stock, this restriction may limit the maximum amount we can draw down under the Committed Equity Financing Facility. If Kingsbridge s beneficial ownership were to exceed 9.9% of our outstanding common stock, together with the total amount of our common stock that would be outstanding upon completion of a draw down, we would not be able to draw down on the Committee Equity Facility until such time as Kingsbridge sells enough shares of our common stock or our number of shares of common stock outstanding increases, which may not occur. Therefore, we may not be able to draw down on the full $25 million commitment.

Our sales of stock to Kingsbridge will be discounted to market price, so our stockholders will experience immediate dilution in the value of their shares if we sell shares to Kingsbridge under the Committed Equity Financing Facility.

The issuance of shares under the Committed Equity Financing Facility will have a dilutive impact on other stockholders, and the issuance or even potential issuance of such shares could have a negative effect on the market price of our common stock. In addition, if we draw down the Committed Equity Financing Facility, we will issue shares to Kingsbridge at a discount ranging from 8% to 12% of the daily volume weighted average prices of our common stock during the fifteen day trading period after initiation of each draw down. Issuing shares at such a discount will further dilute the interests of other stockholders. The 9.9% limitation on Kingsbridge s beneficial ownership will not prevent Kingsbridge from selling some of its holdings and then receiving additional shares, such that the total number of shares sold to Kingsbridge and resold under this prospectus is greater than 9.9% of our outstanding stock.

There are a large number of shares underlying the Committed Equity Financing Facility that are being registered in this prospectus, and the sale of these shares may depress the price of our common stock.

To the extent that Kingsbridge sells shares of our common stock issued under the Committed Equity Financing Facility under this prospectus, our stock price may decrease due to the additional selling pressure in the market. The perceived risk of dilution from sales of stock to or by Kingsbridge may cause holders of our common stock to sell their shares, which could contribute to a decline in our stock price.

The sale of shares underling the Committed Equity Financing Facility could encourage short sales by third parties, which could contribute to the future decline of our stock price.

A significant downward pressure on the price of our common stock caused by the sale of material amounts of common stock under the Committed Equity Financing Facility could encourage short sales by third parties. In a short sale, a prospective seller borrows stock from a stockholder or broker and sells the borrowed stock. The prospective seller hopes that the stock price will decline, at which time the seller can purchase shares at a lower price to repay the lender. The seller profits when the stock price declines because it is purchasing shares at a price lower than the sale price of the borrowed stock. Such sales could place downward pressure on the price of our common stock by increasing the number of shares being sold, which could contribute to the future decline of our stock price.

We cannot predict the actual number of shares that we will issue under the Committed Equity Financing Facility, in any particular draw down, or in total. The number of shares we will issue will fluctuate based on the market price of our stock over the fifteen trading days after we give a draw down notice.

The actual number of shares that we will issue under the Committed Equity Financing Facility in any particular draw down, and in total, is uncertain. Subject to the limitations in our agreement with Kingsbridge, we have the discretion to draw down funds at any time throughout the term of the Committed Equity Financing Facility, and we have not determined the amount of proceeds, if any, we will seek to raise through the Committed Equity Financing Facility. Also, the number of shares we must issue after giving a draw down notice will fluctuate based on the market price of our stock over the fifteen trading days after we give a draw down notice, and Kingsbridge will receive more shares if our stock price declines. Assuming the volume weighted average price of our common stock is $8.90 per share, which was the closing sale price reported on the NASDAQ SmallCap Market on March 22, 2005, and we elected to draw down a total of $10 million under the Committed Equity Financing Facility, we would issue 1,248,439 shares of common stock to Kingsbridge, representing 5.5% of our common stock outstanding as of March 22, 2005. Using the same assumptions and conditions but with elections by us to draw down the full $25 million under the Committed Equity Financing Facility, we would issue 3,121,099 shares of common stock to Kingsbridge, representing 12.8% of our common stock.

These estimates of the number of shares to be sold assume that our stock price would remain constant during each fifteen trading day draw down period, and across all draw down periods. This assumption is not realistic, particularly since Kingsbridge s resale of the shares purchased during each fifteen trading day draw down period may cause the volume weighted average price of our common stock to decline over the draw down period, resulting in the sale of additional shares to Kingsbridge for the same monetary proceeds to us. During the one year period ended March 22, 2005, our stock price as reported on the NASDAQ SmallCap Market ranged from a high of $11.55 to a low of $4.38. You should read the table on page 17 for more information on the amount of proceeds and the potential dilution under the Committed Equity Financing Facility at various market prices.

The Committed Equity Financing Facility imposes certain liquidated damages which may impair our liquidity and ability to raise capital.

The terms of the Committed Equity Financing Facility require us to pay liquidated damages in the event that a registration statement is not available for the resale of securities purchased by Kingsbridge under the Committed Equity Financing Facility. These liquidated damages provisions generally require us to pay an amount based on the decline in value, if any, of shares held by Kingsbridge during the time a registration statement is unavailable. See The Committed Equity Financing Facility below for a further description of these liquidated damages provisions. The liquidated damages could severely affect our liquidity, or to the extent we are permitted to and decide to pay such damages through the issuance of common stock, cause significant dilution to our common stockholders.

We may not issue convertible securities with a floating or adjustable discount to the price of our common stock during the two year term of the Common Equity Financing Facility without the prior written consent of Kingsbridge, which consent we may not be able to obtain. These restrictions may affect our ability to raise capital.

During the two-year term of the proposed Committed Equity Financing Facility, without the prior written consent of Kingsbridge, we are prohibited from issuing securities that are, or may become, convertible or exchangeable into shares of common stock where the purchase, conversion or exchange price for such common stock is determined using a floating or otherwise adjustable discount to the market price of the common stock (including pursuant to an equity line or other financing that is substantially similar to an equity line with an investor other than Kingsbridge). In the past, we met our capital needs through the sale of preferred stock and convertible notes which had floating price features. We may have difficulty raising capital if Kingsbridge does not consent to our use of such securities in the future. If we are unable to raise capital from Kingsbridge or from sources that do not demand a floating price feature, we may have to severely curtail our operations, which could cause a significant decrease in the price of our common stock.

Our ability to draw down on the Committed Equity Financing Facility may be limited under the rules of the NASDAQ Stock Market.

Under the rules of the NASDAQ Stock Market, the approval of our stockholders is required for the sale of shares to Kingsbridge totaling more than 20% of our issued and outstanding shares at the time we entered into the agreement with Kingsbridge. If our average sale price to Kingsbridge is below $6.78 per share (equivalent to a volume weighted average price of $7.54 per share, assuming a 10% discount for all sales) and we elect to draw the full $25 million commitment, it would require that we issue more than 20% of our issued and outstanding shares at the time we entered into the agreement with Kingsbridge and we would need to seek stockholder approval to do so. If we are unable to obtain such stockholder approval, our ability to raise capital under the Committed Equity Financing Facility will be impaired. If we are unable to obtain capital from other sources on a timely basis or on terms favorable to us, we may be required to scale back our marketing and research and development efforts, sell or license some or all of our technology or assets or curtail or cease operations.

Two customers collectively accounted for more than half of our net revenues in fiscal 2004 and we continue to be dependent on a few large customers.

For fiscal 2004, ADS, Inc. accounted for 47% of our revenues and General Dynamics, Armaments and Technical Products, Inc., or GD-ATP, accounted for 11% of our revenues. Both of these customers distributed products they purchased from us to end users. GD-ATP is no longer a distributor for our products. ADS has the right to cease doing business with us at any time. If that were to occur, due to loss of demand for our products from their customers, our net revenues could decline substantially. Any such decline could result in us incurring net losses, increasing our accumulated deficit and causing us to need to raise additional capital to fund our operations.

We must expand our customer base in order to grow our business.

To grow our business, we must fulfill orders from our existing customers, obtain additional orders from our existing customers, develop relationships with new customers and obtain and fulfill orders from new customers. We cannot guarantee that we will be able to increase our customer base. Further, even if we do obtain new customers, we cannot guarantee that those customers will purchase from us enough quantities of our product or at product prices that will enable us to recover our costs in acquiring those customers and fulfilling those orders. Whether we will be able to sell more of our products will depend on a number of factors, including:

- our ability to manufacture reliable products that have the features that are required by our customers;
- our ability to expand relationships with existing customers and to develop relationships with new customers that will lead to additional orders for our products;
- our ability to develop and expand new markets for directed sound products; and
- our ability to develop international product distribution directly or through strategic partners.

The growth of our Government Group revenues is materially dependent on acceptance of our LRAD products by government, military and developing force protection and emergency response agencies, and if these agencies do not purchase our products, our revenues will be adversely affected.

Although our LRAD products are designed for use by both government and commercial customers, our LRAD products have, to date, been predominantly sold for government use. Within the Government Group, our largest customer is a reseller of our products to end users in various branches of the military such as the U.S. Navy, U.S. Marine Corps, U.S. Army and the Department of Homeland Security. We have only recently achieved significant sales of LRAD products, and the product has not yet been widely accepted in the government market. Furthermore, the force protection and emergency response market is itself an emerging market which is changing rapidly. If our LRAD product is not widely accepted by the government, military and the developing force protection and emergency response markets, we may not be able to identify other markets, and we may fail to achieve our sales projections.

Perceptions that long range hailing devices are unsafe or may be used in an abusive manner may hurt sales of our LRAD products which could cause our revenues to decline.

Potential customers for our LRAD products, including government, military and force protection and emergency response agencies may be influenced by claims or perceptions that long range hailing devices are unsafe or may be used in an abusive manner. These claims or perceptions could cause our product sales to decline. In addition, if these agencies have these perceptions, it will be difficult for us to grow our customer base beyond these markets. These factors could reduce future revenues, adversely affecting our financial condition and results of operations.

We are an early stage company introducing new products and technologies. If commercially successful products are not produced in a timely manner, we may be unprofitable or forced to cease operations.

Our HSS, NeoPlanar and LRAD technologies have only recently been introduced to market and are still being improved. Commercially viable sound technology systems may not be successfully and timely produced by us due to the inherent risks of technology development, new product introduction, limitations on financing, manufacturing problems, competition, obsolescence, loss of key technical personnel and other factors. Revenues from our sound products have been limited to date and we cannot guarantee significant revenues in the future. The development and introduction of our products took longer than anticipated by management and the introduction of new products could also be subject to delays. Customers may not wait for newer versions of existing products or new products and may elect to purchase products from competitors. We experienced quality control problems with some of our initial commercial HSS units, and we may not be able to resolve future similar problems in a timely and cost effective manner. Products employing our sound technology may not achieve market acceptance. Our various sound projects are high risk in nature, and unanticipated technical obstacles can arise at any time and result in lengthy and costly delays or result in a determination that further exploitation is unfeasible. If we do not successfully exploit our technology, our financial condition and results of operations and business prospects would be adversely affected.

Our products have never been produced in quantity, and we may incur significant and unpredictable warranty costs as these products are mass produced.

None of our products has been produced in sufficient quantities to be considered mass produced. Our technologies are substantially different from proven, mass produced sound transducer designs. We may incur substantial and unpredictable warranty costs from post-production product or component failures. We generally warrant our products to be free from defects in materials and workmanship for a period up to one year from the date of purchase, depending on the product.

At December 31, 2004, we had a warranty reserve of $408,834. We incurred warranty costs on early versions of our HSS products. Future warranty costs could further adversely affect our financial position, results of operations and business prospects.

We do not have the ability to predict future operating results. Our quarterly and annual revenues will likely be subject to fluctuations caused by many factors, any of which could result in our failure to achieve our revenue expectations.

We expect our sound proprietary reproduction technologies will be the source of substantially all of our future revenues. Revenues from our sound proprietary reproduction technologies are expected to vary significantly due to a number of factors. Many of these factors are beyond our control. Any one or more of the factors listed below or other factors could cause us to fail to achieve our revenue expectations. These factors include:

- our ability to develop and supply sound reproduction components to customers, distributors or OEMs or to license our technologies;
- market acceptance of and changes in demand for our products or products of our customers;
- gains or losses of significant customers, distributors or strategic relationships;
- unpredictable volume and timing of customer orders;
- the availability, pricing and timeliness of delivery of components for our products and OEM products;
- fluctuations in the availability of manufacturing capacity or manufacturing yields and related manufacturing costs;
- the timing of new technological advances, product announcements or introductions by us, by OEMs or licensees and by our competitors;
- product obsolescence and the management of product transitions and inventory;
- unpredictable warranty costs associated with new product models;
- production delays by customers, distributors, OEMs or by us or our suppliers;
- seasonal fluctuations in sales;
- the conditions of other industries, such as military and commercial industries, into which our technologies may be licensed;
- general consumer electronics industry conditions, including changes in demand and associated effects on inventory and inventory practices;
- general economic conditions that could affect the timing of customer orders and capital spending and result in order cancellations or rescheduling; and
- general political conditions in this country and in various other parts of the world that could affect spending for the products that we offer.

Some or all of these factors could adversely affect demand for our products or technologies, and therefore adversely affect our future operating results.

Most of our operating expenses are relatively fixed in the short term. We may be unable to rapidly adjust spending to compensate for any unexpected sales or license revenue shortfalls, which could harm our quarterly operating results. We do not have the ability to predict future operating results with any certainty.

Our expenses may vary from period to period, which could affect quarterly results and our stock price.

If we incur additional expenses in a quarter in which we do not experience increased revenue, our results of operations would be adversely affected and we may incur larger losses than anticipated for that quarter. Factors that could cause our expenses to fluctuate from period to period include:

- the value of our stock price, which impacts the income or expense we record each quarter for the warrant issued to Kingsbridge;
- the timing and extent of our research and development efforts;
- investments and costs of maintaining or protecting our intellectual property;
- the extent of marketing and sales efforts to promote our products and technologies;
- the timing of personnel and consultant hiring; and
- the cost of settling legal disagreements.

Many potential competitors who have greater resources and experience than we do may develop products and technologies that make ours obsolete.

Technological competition from other and longer established electronic and loudspeaker manufacturers is significant and expected to increase. Most of the companies with which we expect to compete have substantially greater capital resources, research and development staffs, marketing and distribution programs and facilities, and many of them have substantially greater experience in the production and marketing of products. In addition, one or more of our competitors may have developed or may succeed in developing technologies and products that are more effective than any of ours, rendering our technology and products obsolete or noncompetitive.

Sound reproduction markets are subject to rapid technological change, so our success will depend on our ability to develop and introduce new technologies.

Technology and standards in the sound reproduction markets evolve rapidly, making timely and cost-effective product innovation essential to success in the marketplace. The introduction of products with improved technologies or features may render our technologies obsolete and unmarketable. If we cannot develop products in a timely manner in response to industry changes, or if our technologies do not perform well, our business and financial condition will be adversely affected. The life cycles of our technologies are difficult to estimate, particularly those such as HSS and LRAD for which there are no well established markets. As a result, our technologies, even if successful, may become obsolete before we recoup our investment.

Our competitive position will be seriously damaged if we cannot obtain patent protection for important differentiating aspects of our products or otherwise protect intellectual property rights in our technology.

We rely on a combination of contracts and trademark, patent and trade secret laws to establish and protect our proprietary rights in our technology. However, we may not be able to prevent misappropriation of our intellectual property, our competitors may be able to independently develop and the agreements we enter into may not be enforceable.

Our success, in part, depends on our ability to obtain and enforce intellectual property protection for our technology, particularly our patents. There is no guarantee any patent will issue on any patent application that we have filed or may file. Claims allowed from existing or pending patents may not be of sufficient scope or strength to protect the economic value of our technologies. Further, any patent that we may obtain will expire, and it is possible that it may be challenged, invalidated or circumvented. If we do not secure and maintain patent protection for our technology and products, our competitive position will be significantly harmed because it will be much easier for competitors to sell products similar to ours. Alternatively, a competitor may independently develop or patent technologies that are substantially equivalent to or superior to our technology. For example, patent protection on our LRAD product is limited, and we may not be able to prevent others from introducing products with similar functionality. If this happens, any patent that we may obtain may not provide protection and our competitive position could be significantly harmed.

As we expand our product line or develop new uses for our products, these products or uses may be outside the protection provided by our current patent applications and other intellectual property rights. In addition, if we develop new products or enhancements to existing products we cannot assure you that we will be able to obtain patents to protect them. Even if we do receive patents for our existing or new products, these patents may not provide meaningful protection. In some countries outside of the United States where our products can be sold or licensed, patent protection is not available. Moreover, some countries that do allow registration of patents do not provide meaningful redress for violations of patents. As a result, protecting intellectual property in these countries is difficult and our competitors may successfully sell products in those countries that have functions and features that infringe on our intellectual property.

We may initiate claims or litigation against third parties in the future for infringement of our proprietary rights or to determine the scope and validity of our proprietary rights or the proprietary rights of our competitors. These claims could result in costly litigation and divert the efforts of our technical and management personnel. As a result, our operating results could suffer and our financial condition could be harmed.

Our competitive position will be seriously damaged if our products are found to infringe on the intellectual property rights of others.

Other companies and our competitors may currently own or obtain patents or other proprietary rights that might prevent, limit or interfere with our ability to make, use or sell our products. As a result, we may be found to infringe the intellectual property rights of others. The electronics industry is characterized by vigorous protection and pursuit of intellectual property rights or positions, which have resulted in significant and often protracted and expensive litigation. In the event of a successful claim of infringement against us and our failure or inability to license the infringed technology, our business and operating results could be adversely affected. Any litigation or claims, whether or not valid, could result in substantial costs and diversion of our resources. An adverse result from intellectual property litigation could force us to do one or more of the following:

- cease selling, incorporating or using products or services that incorporate the challenged intellectual property;

- obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms, if at all; and

- redesign products or services that incorporate the disputed technology.

If we are forced to take any of the foregoing actions, we could face substantial costs and shipment delays and our business could be seriously harmed. Although we carry general liability insurance, our insurance may not cover potential claims of this type or be adequate to indemnify us for all liability that may be imposed.

In addition, it is possible that our customers or end users may seek indemnity from us in the event that our products are found or alleged to infringe the intellectual property rights of others. Any such claim for indemnity could result in substantial expenses to us that could harm our operating results.

Our HSS technology is subject to government regulation, which could lead to unanticipated expense or litigation.

Our HyperSonic sound technology emits ultrasonic vibrations, and as such is regulated by the Food and Drug Administration. In the event of certain unanticipated defects in an HSS product, a customer or we may be required to comply with FDA requirements to remedy the defect and/or notify consumers of the problem. This could lead to unanticipated expense, and possible product liability litigation against a customer or us. Any regulatory impediment to full commercialization of our HSS technology, or any of our other technologies, could adversely affect our results of operations.

We may face personal injury and other liability claims that harm our reputation and adversely affect our sales and financial condition.

Some of our products are capable of sufficient acoustic output to cause damage to human hearing or human health if used improperly, such as when the products are used at close ranges or for long periods of exposure. A person injured in connection with the use of our products may bring legal action against us to recover damages on the basis of theories including personal injury, negligent design, dangerous product or inadequate warning. We may also be subject to lawsuits involving allegations of misuse of our products. Our product liability insurance coverage may be insufficient to pay all such claims. Product liability insurance may become too costly for us or may become unavailable for us in the future. We may not have sufficient resources to satisfy any product liability claims not covered by insurance which would materially and adversely affect our financial position. Significant litigation could also result in a diversion of management s attention and resources, and negative publicity.

We may not be successful in obtaining the necessary licenses required for us to sell some of our products abroad.

Licenses for the export of certain of our products may be required from government agencies in accordance with various statutory authorities, including, for example, the Trading with the Enemy Act of 1917, the Arms Export Control Act of 1976, the Export Administration Act of 1979, or the International Emergency Economic Powers Act, as well as their implementing regulations and executive orders.

In the case of certain agreements involving equipment or services controlled under the International Traffic in Arms Regulations (ITAR) and sold at specified dollar volumes, the U.S. Department of State must notify Congress at least fifteen to thirty days, depending on the intended overseas destination, prior to authorizing these sales. During that time, Congress may take action to block the proposed sale. Based on our current product lines, we do not anticipate the congressional notification requirement to have an immediate impact; however, as our product lines expand, this notification requirement could impact our ability to sell certain controlled products or services in the international market.

The need for export licenses and, when required, Congressional notification, can introduce a period of delay in our ability to consummate international transactions. Because issuance of an export license is wholly within the discretion of the controlling U.S. government agency, it is possible that, in some circumstances, we may not be able to obtain the necessary licenses for some potential transactions.

Our operations could be harmed by factors including political instability, natural disasters, fluctuations in currency exchange rates and changes in regulations that govern international transactions.

We expect to sell or products worldwide. The risks inherent in international trade may reduce our international sales and harm our business and the businesses of our customers and our suppliers. These risks include:

- changes in tariff regulations;
- political instability, war, terrorism and other political risks;
- foreign currency exchange rate fluctuations;
- establishing and maintaining relationships with local distributors and dealers;
- lengthy shipping times and accounts receivable payment cycles;
- import and export licensing requirements;
- compliance with a variety of foreign laws and regulations, including unexpected changes in taxation and regulatory requirements;
- greater difficulty in safeguarding intellectual property than in the U.S.; and
- difficulty in staffing and managing geographically diverse operations.

These and other risks may preclude or curtail international sales or increase the relative price of our products compared to those manufactured in other countries, reducing the demand for our products.

Commercialization of our proprietary sound technologies depends on collaborations with other companies. If we are not able to maintain or find collaborators and strategic alliance relationships in the future, we may not be able to develop our proprietary sound technologies and products.

An important part of our strategy is to establish business relationships with leading participants in various segments of the electronics, government and sound reproduction markets to assist us in producing, distributing, marketing and selling products that include our proprietary sound technologies.

Our success will therefore depend on our ability to maintain or enter into new strategic arrangements with partners on commercially reasonable terms. If we fail to enter into such strategic arrangements with third parties, our financial condition, results of operations, cash flows and business prospects will be adversely affected. Any future relationships may require us to share control over our development, manufacturing and marketing programs or to relinquish rights to certain versions of our sound and other technologies.

We are dependent on third party manufacturers.

We do not have the capacity to manufacture all of our products internally and we are therefore dependent on third party manufacturers. At present, we manufacture NeoPlanar and SoundCluster internally only in small quantities and would need to outsource our manufacturing if sales of these products were to increase significantly. In addition, we established a manufacturing relationship with Pemstar, Inc. in fiscal 2004 to manufacture our LRAD and HSS products. We do not have a formal written agreement with Pemstar. Pemstar, or any other contract manufacturing partner, may not be able or willing to manufacture products for us in the quantities and at the level of quality that we require. If we need to seek additional third party manufacturers for our products, we may not be able to obtain acceptable replacement manufacturing sources on a timely basis. An extended interruption in the supply of our products could result in a substantial loss of sales. In addition, any actual or perceived degradation of product quality as a result of our reliance on third party manufacturers may have an adverse effect on sales or result in increased product returns and buybacks. Failure to maintain quality contract manufacturing could reduce future revenues, adversely affecting financial condition and results of operations.

We rely on outside suppliers to provide a large number of components incorporated in our products.

Our products have a large number of components produced by outside suppliers. In addition, for certain of these items, we qualify only a single source, which can magnify the risk of shortages and decrease our ability to negotiate with our suppliers on the basis of price. In particular, we depend on our HSS piezo-film supplier to provide expertise and materials used in our proprietary HSS emitters. If shortages occur, or if we experience quality problems with suppliers, then our production schedules could be significantly delayed or costs significantly increased, which would have a material adverse effect on our business, liquidity, results of operation and financial position.

Our contracts and subcontracts that are funded by the U.S. government or foreign governments are subject to government regulations and audits and other requirements.

Government contracts require compliance with various contract provisions and procurement regulations. The adoption of new or modified procurement regulations could have a material adverse effect on our business, financial condition or results of operations or increase the costs of competing for or performing government contracts. If we violate any of these regulations, then we may be subject to termination of these contracts, imposition of fines or exclusion from government contracting and government-approved subcontracting for some specific time period. In addition, our contract and subcontract costs and revenues may be subject to adjustment as a result of audits by government auditors.

We derive revenue from government contracts and subcontracts, which are often non-standard, may involve competitive bidding, may be subject to cancellation with or without penalty and may produce volatility in earnings and revenue.

Our Government Group business has involved and is expected in the future to involve providing products and services under contracts or subcontracts with U.S. federal, state, local and foreign government agencies. Obtaining contracts and subcontracts from government agencies is challenging, and contracts often include provisions that are not standard in private commercial transactions. For example, government contracts may:

- include provisions that allow the government agency to terminate the contract without penalty under some circumstances;
- be subject to purchasing decisions of agencies that are subject to political influence;
- contain onerous procurement procedures; and
- be subject to cancellation if government funding becomes unavailable.

Securing government contracts can be a protracted process involving competitive bidding. In many cases, unsuccessful bidders may challenge contract awards, which can lead to increased costs, delays and possible loss of the contract for the winning bidder.

If our key employees do not continue to work for us, our business will be harmed because competition for replacements is intense.

Our performance is substantially dependent on the performance of our executive officers and key technical employees, including Elwood G. Norris, our Chairman, and Kalani Jones, our President and Chief Operating Officer. We are dependent on our ability to retain and motivate high quality personnel, especially highly skilled technical personnel. Our future success and growth also depends on our continuing ability to identify, hire, train and retain other highly qualified technical, managerial and sales personnel. Competition for such personnel is intense, and we may not be able to attract, assimilate or retain other highly qualified technical, managerial or sales personnel in the future. The inability to attract and retain the necessary technical, managerial or sales personnel could cause our business, operating results or financial condition to suffer.

We may not address successfully the problems encountered in connection with any potential future acquisitions.

We expect to continue to consider opportunities to acquire or make investments in other technologies, products and businesses that could enhance our capabilities, complement our current products or expand the breadth of our markets or customer base. We have limited experience in acquiring other businesses and technologies. Potential and completed acquisitions and strategic investments involve numerous risks, including:

- problems assimilating the purchased technologies, products or business operations;
- problems maintaining uniform standards, procedures, controls and policies;
- unanticipated costs associated with the acquisition;
- diversion of management s attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering new markets in which we have no or limited prior experience;
- potential loss of key employees of acquired businesses; and
- increased legal and accounting costs as a result of the newly adopted rules and regulations related to the Sarbanes-Oxley Act of 2002.

If we fail to properly evaluate and execute acquisitions and strategic investments, our management team may be distracted from our day-to-day operations, our business may be disrupted and our operating results may suffer. In addition, if we finance acquisitions by issuing equity or convertible debt securities, our stockholders would be diluted.

We are subject to increased costs as a result of newly adopted accounting and SEC regulations.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, our management will be required by the end of fiscal 2005 to perform an evaluation of our internal controls over financial reporting and have our independent auditor attest to that evaluation. Compliance with these requirements is expected to be expensive and time consuming. If we fail to timely complete this evaluation, or if our independent registered public accounting firm cannot timely attest to our evaluation, we could be subject to regulatory scrutiny and a loss of public confidence in our internal controls.

In designing and evaluating our internal controls over financial reporting, we recognize that any internal control or procedure, no matter how well designed and operated, can provide only reasonable assurance of achieving desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. No system of internal controls can be designed to provide absolute assurance of effectiveness and any material failure of internal controls over financial reporting could materially impact our reported financial results and the market price of our stock could significantly decline. In addition, adverse publicity related to a material failure of internal controls over financial reporting would have a negative impact on our reputation and business.

Changes in stock option accounting rules may adversely impact our reported operating results prepared in accordance with generally accepted accounting principles, our stock price and our competitiveness in the employee marketplace.

Technology companies in general and our company in particular have a history of depending upon and using broad based employee stock option programs to hire, incentivize and retain employees in a competitive marketplace. Currently, we do not recognize compensation expense for stock options issued to employees or directors, except in limited cases involving modifications of stock options, and we instead disclose in the notes to our financial statements information about what such charges would be if they were expensed. An accounting standard setting body has recently adopted a new accounting standard that will require us to record equity-based compensation expense for stock options and employee stock purchase plan rights granted to employees based on the fair value of the equity instrument at the time of grant. We will be required to record these expenses beginning with our fourth quarter of fiscal 2005. The change in accounting rules will lead to increased reported net loss or, should we become profitable, a decrease in reported earnings. This may negatively impact our future stock price. In addition, this change in accounting rules could impact our ability to utilize broad based employee stock plans to reward employees and could result in a competitive disadvantage to us in the employee marketplace.

We may issue preferred stock in the future, and the terms of the preferred stock may reduce the value of your common stock.

We are authorized to issue up to 5,000,000 shares of preferred stock in one or more series. Our board of directors may determine the terms of future preferred stock offerings without further action by our stockholders. If we issue additional preferred stock, it could affect your rights or reduce the value of your common stock. In particular, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with or sell our assets to a third party. These terms may include voting rights, preferences as to dividends and liquidation, conversion and redemption rights, and sinking fund provisions.

We may issue additional common stock in the future, including shares under our Committed Equity Financing Facility, and this stock may reduce the value of your common stock.

As a result of the Committed Equity Financing Facility or other financings, we may issue additional shares of common stock without further action by our stockholders. Moreover, the economic and voting interests of each stockholder will be diluted as a result of such issuances. Although the number of shares of common stock that stockholders presently own will not decrease, such shares will represent a smaller percentage of our total shares that will be outstanding after such events. If we satisfy the conditions that allow us to draw down the entire $25 million available under the Committed Equity Financing Facility, and we choose to do so, then generally, as the market price of our common stock decreases, the number of shares we will have to issue upon each draw down on the Committed Equity Financing Facility increases, to a maximum of 3,684,782 shares we may issue without stockholder approval. Drawing down on the Committed Equity Financing Facility when the price of our common stock is decreasing will have an additional dilutive effect to your ownership percentage and may result in additional downward pressure on the price of our common stock.

Sales of common stock issuable on the exercise of outstanding options and warrants, including the warrant held by Kingsbridge, may depress the price of our common stock.

As of March 22, 2005, there were options granted to our employees, directors and consultants to purchase 2,130,511 shares of our common stock. As of March 22, 2005, there were warrants granted to investors to purchase 2,383,234 shares of our common stock, including the warrant issued to Kingsbridge exercisable for 275,000 shares. The exercise prices for the options and warrants range from $2.00 to $11.00 per share. In the future we may issue additional convertible securities, options and warrants. The issuance of shares of common stock issuable upon the exercise of convertible securities, options or warrants could cause substantial dilution to holders of common stock, and the sale of those shares in the market could cause the market price of our common stock to decline. The potential dilution from these shares could negatively affect the terms on which we could obtain equity financing.

Our stock price is volatile and may continue to be volatile in the future.

Our common stock trades on the NASDAQ SmallCap Market. The market price of our common stock has fluctuated significantly to date. In the future, the market price of our common stock could be subject to significant fluctuations due to general market conditions and in response to quarter-to-quarter variations in:

- our anticipated or actual operating results;
- developments concerning our sound reproduction technologies;
- technological innovations or setbacks by us or our competitors;
- conditions in the consumer electronics market;
- announcements of merger or acquisition transactions;
- changes in personnel within our company; and
- other events or factors and general economic and market conditions.

The stock market in recent years has experienced extreme price and volume fluctuations that have affected the market price of many technology companies, and that have often been unrelated or disproportionate to the operating performance of companies.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in this prospectus and in the documents incorporated by reference in this prospectus that are not statements of historical fact are forward-looking statements. These statements relate to our future plans, objectives, expectations and intentions. You may generally identify these statements by the use of words such as expect, anticipate, may, will and similar expressions.

You should not place undue reliance on our forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of numerous risks and uncertainties that are beyond our control, including those we discuss in Risk Factors and elsewhere in this prospectus and in the documents incorporated by reference in this prospectus. The information in this prospectus speaks only as of the date of this prospectus and the information incorporated herein by reference speaks only as of its date. You should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

USE OF PROCEEDS

We will not receive any proceeds from the sale of any of the shares offered and sold by Kingsbridge. However, we may receive up to $25 million in gross proceeds from the sale of our stock to Kingsbridge under the Committed Equity Financing Facility, and up to approximately $2.4 million upon exercise of the warrant. Each draw down election is limited to a maximum of 3% of our market capitalization at the time of the election, and cannot in any case exceed $10 million. We must wait at least five trading days after the end of a fifteen trading day draw down period before we can commence the next draw down. We are obligated to use 40% of any funds we receive from sales of shares under the Committed Equity Financing Facility, but not funds we receive upon exercise of the warrant, to prepay any outstanding interest and principal under promissory notes we sold in December 2004 with an aggregate principal amount of $2 million. Such notes accrue interest at 8% per year and mature on December 31, 2006.

The amounts set forth above indicate the gross proceeds we may receive from our Committed Equity Financing Facility with Kingsbridge. Any proceeds we receive upon the sale of shares of common stock to Kingsbridge under the Committed Equity Financing Facility, other than proceeds used to prepay any outstanding interest and principal under the promissory notes we sold in December 2004, will be used for working capital and for general corporate purposes. The table forth below is our proposed use of these proceeds, assuming the promissory notes we sold in December 2004 are not prepaid from other sources. However, our actual expenditures may vary substantially depending on various factors, many of which cannot be predicted at this time. Accordingly, subject to the requirement to prepay any outstanding interest and principal under the promissory notes we sold in December 2004, we reserve the right to reallocate all or a substantial portion of any part of the proceeds as our management deems appropriate to meet future business conditions.

	Proceeds if $5,000,000 is Sold	**Proceeds if $10,000,000 is Sold**	**Proceeds if $20,000,000 is Sold**	**Proceeds if $25,000,000 is Sold**
Gross proceeds	$ 5,000,000	$ 10,000,000	$ 20,000,000	$ 25,000,000
Discount (assumed at 8%)	400,000	800,000	1,600,000	2,000,000
Flagstone Securities fee	200,000	350,000	525,000	600,000
Diligence fee to Kingsbridge	96,000	96,000	96,000	96,000
Prepayment of notes (interest excluded)	2,000,000	2,000,000	2,000,000	2,000,000
Legal, accounting & administrative fees	130,000	130,000	130,000	130,000
Net proceeds	$ 2,174,000	$ 6,624,000	$ 15,649,000	$ 20,174,000
<u>Estimated Use of Proceeds</u>				
Sales and marketing expenses	$ 500,000	$ 1,500,000	$ 3,500,000	$ 4,500,000
General and administrative expenses	500,000	1,500,000	3,500,000	4,500,000
Research and development expenses	750,000	2,300,000	6,000,000	7,750,000
Financing of accounts receivable	212,000	662,000	1,325,000	1,712,000
Financing of inventory	212,000	662,000	1,324,000	1,712,000
Total	$ 2,174,000	$ 6,624,000	$ 15,649,000	$ 20,174,000

THE COMMITTED EQUITY FINANCING FACILITY

On December 14, 2004, we entered into a Committed Equity Financing Facility with Kingsbridge Capital Limited, pursuant to which Kingsbridge committed, subject to certain significant limitations and conditions precedent, to purchase up to $25 million of our common stock. As part of this arrangement, we issued a warrant to Kingsbridge to purchase 275,000 shares of our common stock at a price of $8.60 per share. The warrant is exercisable beginning June 14, 2005 and until June 14, 2010.

Until December 14, 2006 we may, from time to time, at our sole discretion and subject to various limitations and conditions precedent that we must satisfy, require Kingsbridge to purchase newly-issued shares of our common stock at a price that is between 88% and 92% of the volume weighted average of the price of our common stock for each of the fifteen trading days following our election to sell, or draw down, shares. Such discount will be determined as follows:

VWAP*	**Applicable Discount To VWAP**
At or greater than $3.00 per share, but less than $5.00 per share	12%
At or greater than $5.00 per share but less that $10.00 per share	10%
At or greater than $10.00 per share	8%

* VWAP means the volume weighted average price of our common stock during a trading day as reported by Bloomberg, L.P.

The maximum number of shares that we are permitted to issue pursuant to the Committed Equity Financing Facility is 8,333,333. However, without stockholder approval, the rules of the NASDAQ Stock Market prohibit us from selling more than 20% of our issued and outstanding common stock measured as of the time at which we entered into a material definitive agreement with Kingsbridge. There were 19,808,819 common shares outstanding on December 14, 2004. This 20% limit applies to any shares we may issue pursuant to the Committed Equity Financing Facility, including any shares that we may issue in payment of liquidated damages, and upon the exercise of the warrant. Therefore, the maximum number of shares that we may issue to Kingsbridge is 3,959,782, of which 3,684,782 may be issued under the Committed Equity Financing Facility, including any shares that we may issue in payment of liquidated damages, and 275,000 may be issued upon exercise of the warrant. We are not required to seek stockholder approval, and there are no penalties or fees if we do not seek stockholder approval, of the Committed Equity Financing Facility. We may in our discretion seek stockholder approval for the issuance of additional shares if our sale of 3,684,782 shares to Kingsbridge under the Committed Equity Financing Facility does not exhaust the $25 million commitment. We do not currently intend to issue shares in excess of the maximum number that we can issue without stockholder approval and this prospectus relates only to the 3.959,782 shares that we may issue without stockholder approval under our agreement.

We will exercise our right to draw down the Committed Equity Financing Facility, if and to the extent available, at such times as we deem appropriate. We are obligated to use 40% of the proceeds we may receive from the Committed Equity Financing Facility to prepay any outstanding interest and principal on the promissory notes we sold in December 2004 with an aggregate principal amount of $2 million. A family trust affiliated with Mr. Elwood G. Norris, our Chairman, purchased a note in the principal amount of $500,000 in the December note financing, and such note will be pre-paid pro rata with the other notes sold in the note financing. Except for the note held by the trust affiliated with Mr. Norris, none of our directors, executive officers or Kingsbridge hold any of the notes sold in the December 2004 financing.

We can elect to sell shares in amounts up to a maximum of 3% of our market capitalization at the time of the election, provided that in no event can a single election exceed $10 million. For each election to sell shares to Kingsbridge, we select the lowest threshold price at which our stock may be sold, but the threshold price cannot be lower than $3.00 per share. In addition, we may not require Kingsbridge to purchase shares of our common stock under the Committed Equity Financing Facility if on each settlement date such purchase would result in Kingsbridge beneficially owning more that 9.9% of our common stock. For example, using 21,317,239 shares of common stock outstanding, which is the number of shares of our common stock outstanding as of March 22, 2005, Kingsbridge would not be able to own more than 2,110,406 shares of our common stock. This 9.9% limit includes only shares purchased pursuant to the Committed Equity Financing Facility, shares we may issue as liquidated damages, and common stock issuable upon exercise of the warrant. There is no restriction on Kingsbridge s acquisition of shares from other sources, so Kingsbridge may beneficially own more than 9.9% of our common stock at any one time. We do not have any agreement with Kingsbridge regarding the distribution of the shares it may purchase under the Committed Equity Financing Facility, although Kingsbridge has indicated that it intends to promptly sell any stock it receives under the Committed Equity Financing Facility. If Kingsbridge does not sell all of the shares of common stock it purchases under the Committed Equity Financing Facility, depending on the price of our common stock, the 9.9% limit could limit Kingsbridge s obligation to purchase the full $25 million commitment.

We cannot predict the number of shares of common stock that will be issued pursuant to the Committed Equity Financing Facility, in part, because the purchase price of the shares will fluctuate based on prevailing market conditions and we have not determined the total dollar amount of shares we will elect to sell. Nonetheless, we can estimate the number of shares of common stock that will be issued using certain assumptions. Assuming we elect to sell $10 million of our common stock and the volume weighted average price of our common stock is $8.90 per share, which is the closing sale price reported on the NASDAQ SmallCap Market on March 22, 2005, we would issue 1,248,439 shares of common stock to Kingsbridge, representing 5.5% of our common stock outstanding as of March 22, 2005, after giving effect to the issuance to Kingsbridge. We would also pay Flagstone Securities, LLC a fee of $350,000, determined as described below.

The following table sets forth the amount of proceeds we would receive from Kingsbridge from the sale of shares of our common stock offered by this prospectus at varying purchase prices assuming 21,317,239 shares of our common stock outstanding, which is the number of shares of our common stock outstanding as of March 22, 2005:

Assumed Average Purchase Price	Assumed VWAP	Number of Shares to be Issued if Full Purchase (1)	Percentage Outstanding After Giving Effect to the Issuance to Kingsbridge (2)	Fees Payable to Flagstone (3)	Net Proceeds from the Sale of Shares to Kingsbridge(4)
$ 3.00	$ 3.41	3,684,782	14.7%	$ 371,087	$ 10,683,259
$ 5.00	$ 5.56	3,684,782	14.7%	$ 501,359	$ 17,922,551
$ 8.01	$ 8.90(5)	3,121,099	12.8%	$ 600,000	$ 24,400,000
$ 10.00	$ 10.87	2,500,000	10.5%	$ 600,000	$ 24,400,000
$ 15.00	$ 16.30	1,666,666	7.3%	$ 600,000	$ 24,400,000
$ 20.00	$ 21.74	1,250,000	5.5%	$ 600,000	$ 24,400,000
$ 40.00	$ 43.48	625,000	2.8%	$ 600,000	$ 24,400,000

(1) Based upon a maximum of 3,684,782 shares for purchase by Kingsbridge registered in the registration statement which includes this prospectus. Does not include the 275,000 shares that may be issued upon exercise of the warrant.

(2) Based upon 21,317,239 shares outstanding as of March 22, 2005.

(3) Fee arrangement with Flagstone Securities, LLC discussed below.

(4) Net proceeds after fees payable to Flagstone.

(5) Closing sale price reported on the NASDAQ SmallCap Market on March 22, 2005.

Flagstone Securities, LLC served as a consultant for the Committed Equity Financing Facility. Flagstone is a registered broker-dealer. We entered into a letter agreement with Flagstone dated December 13, 2004, whereby we agreed to pay to Flagstone cash payments equal to 4% of the first $5,000,000 raised under the Committed Equity Financing Facility; 3% for the second $5,000,000 raised under the Committed Equity Financing Facility; 2% for the third $5,000,000 raised under the Committed Equity Financing Facility; and 1.5% for any additional amounts raised under the Committed Equity Financing Facility. Proceeds obtainable upon Kingsbridge s exercise of the warrant are not included in the foregoing amounts. We did not pay Flagstone any fees in connection with entering into the Committed Equity Financing Facility or upon the issuance of the warrant; and Flagstone is not entitled to any payments or fees upon the exercise of the warrant. The letter agreement is effective until December 13, 2005, but, we are obligated to pay Flagstone these fees for the duration of the Committed Equity Financing Facility. Flagstone provided consulting services to us consisting of introducing us to Kingsbridge and providing research and information on the terms of other equity financing facilities. In addition, Flagstone has and will continue to arrange and attend meetings with investors and analysts regarding our company.

The issuance of our common stock under the Committed Equity Financing Facility will have no effect on the rights or privileges of existing holders of common stock except that the economic and voting interests of each stockholder will be diluted as a result of such issuance. Although the number of shares of common stock that stockholders presently own will not decrease, such shares will represent a smaller percentage of our total shares that will be outstanding after such events. If we satisfy the conditions that allow us to draw down the entire $25 million available under the Committed Equity Financing Facility, and we choose to do so, then generally, as the market price of our common stock decreases, the number of shares we will have to issue upon each draw down on the Committed Equity Financing Facility increases, to a maximum of 3,684,782 shares without stockholder approval. Drawing down upon the Committed Equity Financing Facility when the price of our common stock is decreasing will have an additional dilutive effect to the ownership percentage of current stockholders and may result in additional downward pressure on the price of our common stock.

The following is a summary of the material conditions that must be met before Kingsbridge is obligated to buy any shares of our common stock pursuant to a draw down, none of which are within the control of Kingsbridge:

Each of the representations and warranties we made in our agreement with Kingsbridge, which we refer to as the purchase agreement, must be true and correct in all material respects as of the date when made and as of the draw down exercise date as though made at that time. One of the representations provides that no material and adverse event or series of events has or have occurred affecting our business, operations, properties or financial condition.

We must have complied in all material respects with our obligations under the purchase agreement.

The registration statement, of which this prospectus is a part, must be effective and available for use by Kingsbridge.

We cannot have knowledge of any event more likely than not to cause the registration statement to be unavailable to Kingsbridge during the fifteen day draw down period.

Trading in our common stock must not have been suspended by the Commission, the NASDAQ SmallCap Market or the NASD, and trading in securities generally on the NASDAQ SmallCap Market must not have been suspended or limited.

The number of shares of our common stock beneficially owned by Kingsbridge, which includes the shares of our common stock that may be issued upon exercise of the warrant and in payment of liquidated damages, together with those shares that we propose to sell to Kingsbridge in connection with a draw down, cannot exceed 9.9% of the total amount of our common stock that would be outstanding upon completion of the draw down. This 9.9% limit does not apply to any shares that Kingsbridge may purchase other than through our agreement with Kingsbridge.

There is no guarantee that we will be able to meet these and other conditions under the purchase agreement or that we will be able to draw down any portion of the $25 million commitment. Even if we meet these and other conditions, the election to draw down amounts is at our sole discretion and we are not obligated to sell any shares to Kingsbridge.

During the two-year term of the proposed Committed Equity Financing Facility, without the prior written consent of Kingsbridge, we are prohibited from issuing securities that are, or may become, convertible or exchangeable into shares of common stock where the purchase, conversion or exchange price for such common stock is determined using a floating or otherwise adjustable discount to the market price of the common stock (including pursuant to an equity line or other financing that is substantially similar to an equity line with an investor other than Kingsbridge).

We also entered into a registration rights agreement with Kingsbridge in connection with the Committed Equity Financing Facility. As contemplated by the registration rights agreement, we have filed a registration statement, of which this prospectus is a part, with the Commission relating to the resale by Kingsbridge of 3,684,782 shares of common stock purchased by Kingsbridge under the purchase agreement or issued to Kingsbridge as a result of the exercise of the warrant. In addition, we are including in the registration statement, of which this prospectus is a part, shares that we may issue in payment of liquidated damages in the event that a registration statement is not available for the resale of securities purchased by Kingsbridge under the Committed Equity Financing Facility. The effectiveness of such registration statement is a condition precedent to our ability to sell common stock to Kingsbridge under the purchase agreement.

During the term of the Committed Equity Financing Facility, Kingsbridge and its affiliates are prohibited from entering into any hedging transaction or engaging in any short selling with respect to our common stock. Kingsbridge may however sell the shares to be purchased with respect to each trading day during a draw down period once the purchase price and number of shares for such trading day have been determined, even though such determination will occur up to seven trading days before we are required to settle such purchase of shares. If Kingsbridge elects to make these permitted sales, it will settle these sale positions after it receives the shares from us in accordance with the terms of Kingsbridge s agreements with its resale brokers. Sales by Kingsbridge of shares purchased from us in a draw down could cause a significant downward pressure on the price of our common stock which could encourage short sales by third parties, as discussed more fully in the Risk Factors. Such short sales could place additional downward pressure on the price of our common stock by increasing the number of shares being sold, which could contribute to the further decline of our stock price.

The terms of the Committed Equity Financing Facility require us to pay liquidated damages in the event that a registration statement is not available for the resale of securities purchased by Kingsbridge under the Committed Equity Financing Facility. Except for certain permitted periods of ineffectiveness described below, we are obligated to pay to Kingsbridge an amount, up to $2.5 million, equal to the number of shares purchased under the Committed Equity Financing Facility and held by Kingsbridge at the date the registration statement becomes unavailable, multiplied by any positive difference in price between the volume weighted average price on the trading day prior to such period of unavailability and the volume weighted average price on the first trading day after the period of unavailability. We may, in lieu of paying such amounts, offer to repurchase the securities held by Kingsbridge for a price equal to the volume weighted average price on the trading day prior to such period of unavailability.

We are permitted to suspend the availability of the registration statement for resale of the shares purchased by Kingsbridge if there is material undisclosed information then existing or if we intend to file another registration statement with the SEC. However, we are permitted to suspend the use of the registration statement for only up to 30 days during any calendar year, and no more than six times in any 12 month period. In the event that we exercise this right of suspension within fifteen trading days following any settlement date for the purchase of our stock under the Committed Equity Financing Facility, we must pay to Kingsbridge as liquidated damages a percentage of the decline in value, if any, of shares purchased during the most recent draw down period and held by Kingsbridge, as follows: 75% if such notice of suspension is delivered prior to the fifth trading day after a settlement date, 50% if such notice of suspension is delivered on or after the fifth and prior to the tenth trading day after a settlement date, and 25% if such notice of suspension is delivered on or after the tenth and prior to the fifteenth trading day after a settlement date. The amount of such payments for any one period of suspension may not exceed $1.75 million. We may, in lieu of paying such amounts, offer to repurchase the securities held by Kingsbridge for a price equal to the volume weighted average price on the trading day prior to such period of ineffectiveness. We may also elect to pay such amounts in shares of common stock valued at the market value on the first trading day after such permitted suspension ends.

SELLING STOCKHOLDER

The following table sets forth certain information regarding beneficial ownership of our common stock by Kingsbridge as of December 31, 2004. Kingsbridge has not had a material relationship with our company within the past three years other than the Committed Equity Financing Facility described above.

Name of Selling Stockholder	Number of Shares of Common Stock Beneficially Owned Prior to Offering	Percent of Outstanding Shares of Common Stock Beneficially Owned Prior to Offering	Number of Shares of Common Stock to be Offered Pursuant to this Prospectus(1)	Number of Shares of Common Stock Beneficially Owned After the Offering (2)	Percent of Outstanding Shares of Common Stock Beneficially Owned After the Offering (2)
Kingsbridge Capital Limited (3)		%	3,959,782		%

(1) Includes the shares of common stock which are the subject of this prospectus as follows: 3,684,782 shares of common stock issuable in connection with the Committed Equity Financing Facility, including any shares that we may issue as payment of liquidated damages, and 275,000 shares of common stock that may be acquired by Kingsbridge upon exercise of its warrant.

(2) Assumes that all shares included in this prospectus are sold and that Kingsbridge does not acquire any additional shares of common stock.

(3) Valentine O Donoghue and Adam Gurney have shared voting and investment control of the securities held by Kingsbridge and Kingsbridge does not accept third party investments.

PLAN OF DISTRIBUTION

We are registering 3,959,782 shares of common stock under this prospectus on behalf of Kingsbridge. All or a portion of the shares offered hereby by Kingsbridge may be delivered and/or sold in transactions from time to time on the NASDAQ SmallCap Market, or another national securities exchange or quotation service on which our common stock trades, on the over-the-counter market, in privately-negotiated transactions, or a combination of such methods of sale, at fixed prices, market prices prevailing at the time, prices related to such prevailing prices or negotiated prices. Kingsbridge may also sell shares through the writing of options which may or may not be listed on an options exchange. Kingsbridge may effect such transactions by selling to or through one or more broker-dealers, and such broker-dealers may receive compensation in the form of underwriting discounts, concessions or commissions from Kingsbridge. These discounts, concessions or commissions as to any particular underwriter, broker-dealer or agent may be in excess of those customary in the types of transactions involved. Kingsbridge is an underwriter within the meaning of the Securities Act. We have agreed to indemnify Kingsbridge with respect to the shares offered hereby against certain liabilities including certain liabilities under the Securities Act, or, if such indemnity is unavailable, to contribute toward amounts required to be paid for such liabilities.

Any broker-dealer participating in such transactions as agent may receive commissions from Kingsbridge and, it acts as agent for the purchaser of such shares, from such purchaser. Broker-dealers may agree with Kingsbridge to sell a specified number of shares at a stipulated price per share, and, to the extent such a broker-dealer is unable to do so acting as agent for Kingsbridge, to purchase as principal any unsold shares at the price required to fulfill the broker-dealer commitment to Kingsbridge. Broker-dealers who acquire shares as principal may resell such shares from time to time in transactions on the NASDAQ SmallCap Market, or another national securities exchange or quotation service on which our common stock trades, on the over-the-counter market, in privately-negotiated transactions or otherwise at fixed prices, market prices prevailing at the time of sale, prices related to such prevailing prices or negotiated prices, and in connection with such resales may pay to or receive from the purchasers of such shares commissions computed as described above. Transactions by broker-dealers may include crosses, which are transactions in which the same broker acts as agent on both sides of the trade, and block transactions, and may involve sales to and through other broker-dealers, including transactions of the nature described above. To the extent required under the Securities Act, a supplemental prospectus will be filed, disclosing:

- the name of any such broker-dealers;
- the number of shares involved;
- the price at which such shares are to be sold;
- the commissions paid or discounts or concessions allowed to such broker-dealers, where applicable;
- that such broker-dealers did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus, as supplemented; and
- other facts material to the transaction.

Kingsbridge and any other persons participating in the sale or distribution of the shares will be subject to the applicable provisions of the Securities Exchange Act of 1934 and the rules and regulations under such Act, including, without limitation, Regulation M. These provisions may restrict certain activities of, and limit the timing of, purchases by Kingsbridge or other persons or entities. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and certain other activities with respect to such securities for a specified period of time prior to the commencement of such distributions, subject to specified exceptions or exemptions. All of these limitations may affect the marketability of the shares.

Kingsbridge will pay all commissions, transfer taxes, and certain other expenses associated with the resale of securities. The shares offered by this prospectus are being registered to fulfill our contractual obligation to Kingsbridge and we have paid the expenses of the preparation of this prospectus.

We have agreed to reimburse Kingsbridge for reasonable attorneys fees and expenses incurred by Kingsbridge in connection with entry into and amendments of our agreements with Kingsbridge, any communications with the SEC, and any actions by Kingsbridge to enforce its agreements. We have also agreed to pay Kingsbridge all reasonable due diligence expenses it incurs during the term of the agreement (beginning January 2005), up to $12,000 per calendar quarter.

Kingsbridge may sell the shares to be purchased with respect to each trading day during a draw down period once the purchase price and number of shares for such trading day have been determined, even though such determination will occur up to seven trading days before we are required to deliver shares in settlement of such purchase. Once settlement occurs, Kingsbridge will deliver these securities to close out such positions in accordance with the terms of Kingsbridge s agreements with its resale brokers. Kingsbridge may also loan or pledge the common stock to broker-dealers that in turn may sell these securities.

The aggregate proceeds to Kingsbridge from the resale of the common stock offered by this prospectus will be the purchase price of the common stock less discounts and commissions, if any. Kingsbridge reserves the right to accept and, together with its agents, to reject, in whole or in part, any proposed purchase of common stock to be made directly or through agents.

In order to comply with the securities laws of some states, if applicable, the common stock may be sold in these jurisdictions only through registered or licensed brokers or dealers. The common stock may not be offered or sold in any jurisdiction unless the offer and sale have been registered or qualified for sale or an exemption is available and complied with.

Broker-dealers or agents that participate in the sale of the common stock may be deemed to be underwriters within the meaning of Section 2(11) of the Securities Act. Profits on the sale of the common stock by Kingsbridge and any discounts, commissions or concessions received by any broker-dealers or agents might be deemed to be underwriting discounts and commissions under the Securities Act. Kingsbridge will be subject to the prospectus delivery requirements of the Securities Act.

To our knowledge, there are currently no plans, arrangements or understandings between Kingsbridge and any underwriter, broker-dealer or agent regarding the sale of the common stock.

Kingsbridge may decide not to sell any common stock described in this prospectus. Any securities covered by this prospectus which qualify for sale pursuant to Rule 144 or Rule 144A of the Securities Act may be sold under Rule 144 or Rule 144A rather than pursuant to this prospectus. In addition, Kingsbridge may transfer, devise or gift the common stock by other means not described in this prospectus.

With respect to a particular offering of the common stock, to the extent required by the Securities Act, an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement which includes this prospectus, will be prepared and will set forth the following information:

- the specific common stock to be offered and sold;
- the names of the selling stockholder ;
- the respective purchase prices and public offering prices and other material terms of the offering;
- the names of any participating agents, broker-dealers or underwriters; and
- any applicable commissions, discounts, concessions and other items constituting, compensation from the selling stockholder.

LEGAL MATTERS

Certain legal matters relating to the offering will be passed upon for us by Sheppard, Mullin, Richter & Hampton LLP, San Diego, California. Certain legal matters will be passed upon for any agents or underwriters by counsel for such agents or underwriters identified in the applicable prospectus supplement.

EXPERTS

The financial statements and schedules incorporated by reference in this Prospectus have been audited by BDO Seidman, LLP, independent registered public accounting firm, to the extent and for the periods set forth in their report incorporated herein by reference, and are incorporated herein in reliance upon such report given the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

This prospectus is part of a registration statement on Form S-3 that was filed with the SEC. This prospectus and any subsequent prospectus supplements do not contain all of the information in the registration statement. We have omitted from this prospectus some parts of the registration statement as permitted by the rules and regulations of the SEC. In addition, we file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any documents that we have filed with the SEC at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

INFORMATION INCORPORATED BY REFERENCE

We have elected to incorporate by reference certain information into this prospectus. By incorporating by reference, we can disclose important information to you by referring you to another document we have filed with the SEC. The information incorporated by reference is deemed to be part of this prospectus, except for information incorporated by reference that is superseded by information contained in this prospectus. This prospectus incorporates by reference the documents set forth below that we have previously filed with the SEC:

Annual Report on Form 10-K, as amended, for our fiscal year ended September 30, 2004;

Quarterly Report on Form 10-Q, as amended, for the period ended December 31, 2004;

Current Reports on Form 8-K filed with the SEC on November 22, 2004, December 17, 2004, December 30, 2004, January 18, 2005 (amended January 21, 2005), January 31, 2005, February 11, 2005, March 21, 2005, March 24, 2005 and March 25, 2005; and

Registration Statement on Form 10-SB, effective August 1, 1994 which includes a description of our common stock.

We also incorporate by reference all documents we file pursuant to Section 13(a), 13(c), 14 or 15 of the Exchange Act after the date of the initial registration statement and prior to effectiveness of the registration statement.

All documents we file in the future pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the termination of the offering are also incorporated by reference and are an important part of this prospectus.

You may obtain copies of these documents on the web site maintained by the SEC at www.sec.gov, or from us without charge (other than exhibits to such documents, unless such exhibits are specifically incorporated by reference into such documents) by contacting us at American Technology Corporation, 13114 Evening Creek Drive South, San Diego, California 92128, Attn: Director, Investor Relations.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth our costs and expenses in connection with the registration for resale of our common stock. All of the amounts shown are estimates except the Securities and Exchange Commission (the Commission) registration fee.

	AMOUNT
Commission Registration Fee	$ 4,393
Printing and Related Fees	$ 5,000
Legal Fees and Expenses	$ 80,000
Accounting Fees and Expenses	$ 20,000
Miscellaneous Expenses	$ 1,607
Total	$ 111,000

ITEM 15. LIABILITY AND INDEMNIFICATION OF DIRECTORS AND OFFICERS.

As permitted by Delaware law, our Certificate of Incorporation provides that the we will indemnify our officers, directors, employees and agents against attorneys fees and other expenses and liabilities they incur to defend, settle or satisfy any civil or criminal action brought against them arising out of their association with or activities on behalf of us unless, in any such action, they are adjudged to have acted with gross negligence or to have engaged in willful misconduct. We may also bear the expenses of such litigation for any such persons upon their promise to repay such sums if it is ultimately determined that they are not entitled to indemnification. Such expenditures could be substantial and may not be recouped, even if we are so entitled. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that, in the opinion of the Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Pursuant to the General Corporation Law of Delaware, our Certificate of Incorporation excludes personal liability on the part of its directors to our company for monetary damages based upon any violation of their fiduciary duties as directors, except as to liability for any breach of the duty of loyalty, acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, acts in violation of Section 174 of the General Corporation Law of Delaware, or any transaction from which a director receives an improper personal benefit. This exclusion of liability does not limit any right which a director may have to be indemnified and does not affect any director s liability under federal or applicable state securities laws.

We currently have directors and officers liability insurance to provide our directors and officers with insurance coverage for losses arising from claims based on breaches of duty, negligence, errors and other wrongful acts.

ITEM 16. INDEX TO EXHIBITS.

Number	Exhibit
4.1	Certificate of Incorporation of American Technology Corporation (Delaware) dated March 1, 1992. Filed as Exhibit 2.1 on Form 10-SB effective August 1, 1994 and incorporated herein by reference.
4.2	Amendment to Certificate of Incorporation of American Technology Corporation dated March 24, 1997 and filed with Delaware on April 22, 1997. Filed as Exhibit 3.1.1 on Form 10-QSB for the quarter ended March 31, 1997, dated May 13, 1997 and incorporated herein by reference.
4.3	Corrected Certificate of Designations of Series A Convertible Preferred Stock dated and filed with Delaware on August 25, 1997. Filed as Exhibit 3.1.3 on Form 8-K dated August 29, 1997 and incorporated herein by reference.
4.4	Corrected Certificate of Designations of Series B Convertible Preferred Stock filed with Delaware on December 23, 1998. Filed as Exhibit 3.1.4 on Form 10-KSB for the year ended September 30, 1998, dated December 29, 1998 and incorporated herein by reference.
4.5	Corrected Certificate of Designation of Series C Preferred Stock filed with Delaware on April 19, 2000. Filed as Exhibit 3.1.5 on Form 8-K dated April 19, 2000 and incorporated herein by reference.
4.6	Certificate of Designation of Series D Preferred Stock filed with Delaware on May 3, 2002. Filed as Exhibit 3.1 on Form 10-Q for the quarter ended March 31, 2002, dated May 15, 2002 and incorporated herein by reference.
4.7	Certificate of Amendment to Certificate of Incorporation filed with Delaware on September 26, 2002. Filed as Exhibit 3.1.6 on Form 10-K for the year ended September 30, 2002, dated December 23, 2002 and incorporated herein by reference.
4.8	Certificate of Designation of Series E Preferred Stock filed with Delaware on February 28, 2003. Filed as Exhibit 4.2 on Form 8-K dated March 6, 2003 and incorporated herein by reference.
4.9	Restated Bylaws of American Technology Corporation. Filed as Exhibit 3.1 on Form 10-Q for the quarter ended December 31, 2004, filed on February 11, 2005 and incorporated herein by reference.
4.10	Specimen Common Stock Certificate. Previously filed.

4.11 Registration Rights Agreement dated December 14, 2004 with Kingsbridge Capital Limited. Filed as Exhibit 10.2 on Form 8-K filed December 17, 2004 and incorporated herein by reference.

5.1 Opinion of Sheppard Mullin Richter & Hampton LLP. Previously filed.

10.1 Common Stock Purchase Agreement dated December 14, 2004 with Kingsbridge Capital Limited. Filed as Exhibit 10.1 on Form 8-K filed December 17, 2004 and incorporated herein by reference.

10.2 Warrant dated December 14, 2004 in favor of Kingsbridge Capital Limited. Filed as Exhibit 4.1 to Form8-K filed December 17, 2004 and incorporated herein by reference.

10.3 Letter Agreement dated December 13, 2004 with Flagstone Securities.

10.4 Letter Agreement dated March 15, 2005 with Kingsbridge Capital Limited.

10.5 Summary of Director and Executive Officer Compensation.

23.1 Consent of Sheppard Mullin Richter & Hampton LLP (included in Exhibit 5.1)

23.2 Consent of BDO Seidman, LLP, Independent Registered Public Accounting Firm.

24.1 Power of Attorney. Previously filed.

ITEM 17. UNDERTAKINGS.

We hereby undertake:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(A) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(B) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;

(C) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (1)(A) and (1)(B) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports we filed with or furnished to the SEC pursuant to Section 13 or 15(d) of the Exchange Act e:11pt;">The primary purpose of the Nominating Committee is to identify qualified candidates for election, nomination or appointment to the Board of Directors and to recommend to the full Board a slate of director nominees for each annual meeting of the shareholders of Park or as vacancies occur between annual meetings of the shareholders. In addition, the Nominating Committee provides oversight on matters surrounding the composition and operation of the Board of Directors, including the evaluation of Board performance and processes, and makes recommendations to the full Board in the areas of Board committee selection, including Board committee chairpersons and committee rotation practices. At least once every two years, the Nominating Committee is to review the operations and effectiveness of the full Board of Directors including the size of the Board and the collective Board performance as well as the performance of each Board committee. At least once every two years, the Nominating Committee also reviews Park's Code of Business Conduct and Ethics and recommends changes to the full Board of Directors as necessary. The Nominating Committee also carries out any other responsibilities delegated to the Nominating Committee by the full Board of Directors.

The Nominating Committee met three times during the 2013 fiscal year.

Risk Committee

The Board of Directors has a Risk Committee which is currently comprised of Leon Zazworsky (Chair), Donna M. Alvarado and Rick R. Taylor. Messrs. Zazworsky and Taylor also served as members of the Risk Committee during the entire 2013 fiscal year. Ms. Alvarado was appointed to the Risk Committee effective April 22, 2013 upon her initial election as a member of Park's Board of Directors. Sarah Reese Wallace also served on the Risk Committee from January 1, 2013 until her July 29, 2013 resignation from Park's Board of Directors.

The Risk Committee is organized and conducts its business pursuant to a written charter adopted by the Board of Directors (the "Risk Committee Charter"). A copy of the Risk Committee Charter is posted on the "Governance Documents" section of the "Investor Relations" page of Park's Internet Web site at www.parknationalcorp.com. At least annually, the Risk Committee reviews and reassesses the adequacy of the Risk Committee Charter and recommends changes to the full Board of Directors as necessary.

The Risk Committee assists the Board of Directors in monitoring management's implementation and enforcement of Park's risk management framework. The Risk Committee's primary duty and responsibility is to ensure that Park has in place an appropriate enterprise-wide process to identify, assess, monitor and control Park's credit, market, liquidity, operational, legal and reputational risks (specifically excluding audit, financial reporting, compliance and litigation risks which are the primary responsibilities of the Audit Committee). The Risk Committee reviews and assesses the Park Risk Management Policy annually and recommends changes to the full Board of Directors as necessary. The Risk Committee reviews and approves Park's risk management framework, monitors the level and trend of key risks, and monitors management's compliance with risk tolerances established by the Board of Directors and Park's policies. Park's chief risk officer meets with the Risk Committee at least quarterly, including in executive session, and provides reports to the Risk Committee regarding Park's risk assessment and risk profile.

The Risk Committee met six times during the 2013 fiscal year.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee of Park's Board of Directors is currently comprised of F. William Englefield IV (Chair), Stephen J. Kambeitz, Timothy S. McLain and Leon Zazworsky. Messrs. Englefield, McLain and Zazworsky also served as members of the Compensation Committee during the entire 2013 fiscal year. Mr. Kambeitz was appointed to the Compensation Committee effective April 22, 2013. All of the current members of the Compensation Committee are independent directors for purposes of the applicable NYSE MKT Rules and none of them is a present or past employee or officer of Park or any of our subsidiaries. During the 2013 fiscal year, none of Park's executive officers served on the board of directors or compensation committee (or other committee serving an equivalent function) of any other entity, one of whose executive officers served on Park's Board of Directors or Compensation Committee.

Each of Messrs. Englefield, Kambeitz, McLain and Zazworsky as well as firms, corporations or other entities with which they are affiliated were customers of and had banking transactions (including loans and loan commitments) with Park National Bank, in the ordinary course of their respective businesses and in compliance with applicable federal and state laws and regulations. The loans to these persons were made on substantially the same terms, including the interest rate charged and collateral required, as those prevailing at the time for comparable transactions with persons not affiliated with Park or one of our subsidiaries. In addition, the loans to these persons have been, and are presently, subject to no more than a normal risk of uncollectibility and present no other unfavorable features.

On December 23, 2009, Leon Zazworsky purchased a 2009 Note in the principal amount of $1,000,000, at a purchase price of 100% of the principal amount thereof. The 2009 Note matures on December 23, 2019. Interest on the 2009 Note is payable quarterly, at a fixed rate of 10% per annum. During the period from January 1, 2013 through March 10, 2014, Mr. Zazworsky was paid interest in the aggregate amount of $100,000 ($100,000 during the 2013 fiscal year).

On April 20, 2012, Stephen J. Kambeitz purchased a 2012 Note in the principal amount of $250,000 and Leon Zazworsky purchased a 2012 Note in the principal amount of $1,000,000. Each 2012 Note was purchased at a purchase price of 100% of the principal amount thereof. The 2012 Notes mature on April 20, 2022. Interest on the 2012 Notes is payable quarterly, at a fixed rate of 7% per annum. During the period from January 1, 2013 through March 10, 2014, Mr. Kambeitz was paid interest in the aggregate amount of $17,500 ($17,500 during the 2013 fiscal year) and Mr. Zazworsky was paid interest in the aggregate amount of $70,000 ($70,000 during the 2013 fiscal year).

EXECUTIVE OFFICERS

The following are the executive officers of Park, all of whom are elected annually and serve at the pleasure of the Board of Directors of Park. This table lists each executive officer's age as of the date of this proxy statement as well as the positions presently held by each executive officer with Park and our principal subsidiaries and his individual business experience.

Name	Age	Positions Held with Park and Our Principal Subsidiaries and Principal Occupation
C. Daniel DeLawder	64	Chairman of the Board since January 2005, a member of the Board of Directors since April 1994, Chief Executive Officer from January 1999 to December 2013, and President from 1994 to December 2004, of Park; Chairman of the Board since January 2005, a member of the Board of Directors since 1992, Chief Executive Officer from January 1999 to December 2013, President from 1993 to December

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Name	Age	Positions Held with Park and Our Principal Subsidiaries and Principal Occupation
		Chairman of the Board since January 2005, a member of the Board of Directors since April 1994, Chief Executive Officer from January 1999 to December 2013, and President from 1994 to December 2004, of Park; Chairman of the Board since January 2005, a member of the Board of Directors since 1992, Chief Executive Officer from January 1999 to December 2013, President from 1993 to December 2004 and Executive Vice President from 1992 to 1993, of Park National Bank; a member of the Board of Directors from 1985 to March 2006, Chairman of the Board of Directors from 1989 to 2003, and President from 1985 to 1992, of the Fairfield National Division; a member of the Board of Directors of the Richland Bank Division from 1997 to January 2006; a member of the Board of Directors of the Second National Bank Division from 2000 to March 2006; a member of the Board of Directors of Vision Bank from March 2007 to February 2012; a director of the Federal Reserve Bank of Cleveland from 2007 to 2012; a member of the Board of Trustees of Ohio University, Athens, Ohio, from 2000 to 2009 (for the last two years, also served as Chairman of the Board of Trustees). Mr. DeLawder also serves as the Chair of the Executive Committee and as a member of the Investment Committee of Park's Board of Directors.
David L. Trautman	52	Chief Executive Officer since January 2014, President since January 2005, a member of the Board of Directors since January 2005 and Secretary from July 2002 to December 2013, of Park; President since January 2005 and a member of the Board of Directors since 2002 of Park National Bank; Chairman of the Board from March 2001 to March 2006, a member of the Board of Directors from May 1997 to March 2006, and President and Chief Executive Officer from May 1997 to February 2002, of the First-Knox National Bank Division; Executive Vice President from February 2002 to December 2004 and Vice President from July 1993 to June 1997 of Park National Bank; a member of the Board of Directors of the United Bank Division from 2000 to March 2006. Mr. Trautman also serves as Vice Chair of the Executive Committee and as Chair of the Investment Committee of Park's Board of Directors.
Brady T. Burt	41	Secretary since January 2014, Treasurer since April 2013, Chief Financial Officer since December 19, 2012 and Chief Accounting Officer from April 2007 to December 19, 2012, of Park; Senior Vice President and Chief Financial Officer since December 19, 2012 and Vice President and Chief Accounting Officer from April 2007 to December 19, 2012, of Park National Bank; Executive Vice President and Chief Financial Officer of Vail Banks, Inc. (the parent company for West Star Bank of Vail, Colorado) from June 2005 until November 2006. Vail Banks, Inc. was sold to U.S. Bancorp in September 2006.

ADVISORY VOTE ON NAMED EXECUTIVE OFFICER COMPENSATION
(Proposal 2)

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) and corresponding SEC rules enable Park’s shareholders to vote to approve, on an advisory and non-binding basis, the compensation of Park’s named executive officers as disclosed in this proxy statement in accordance with SEC rules. Accordingly, the following resolution will be submitted for shareholder approval at the Annual Meeting:

“RESOLVED, that the shareholders of Park National Corporation (“Park”) approve, on an advisory basis, the compensation of Park’s named executive officers as disclosed in Park’s proxy statement for its 2014 Annual Meeting of Shareholders pursuant to Item 402 of SEC Regulation S-K, including in the “Compensation Discussion and Analysis”, the “Summary Compensation Table for 2013”, and the related executive compensation tables, notes and narratives.”

The Board of Directors believes that Park’s compensation policies and procedures, which are reviewed and approved by the Compensation Committee, are effective in aligning the compensation of Park’s named executive officers with Park’s short-term goals and long-term success and that such compensation and incentives are designed to attract, retain and motivate Park’s key executives who are directly responsible for Park’s continued success. The Board of Directors believes that Park’s compensation policies and practices do not threaten the value of Park or the investments of Park’s shareholders or create incentives to engage in behaviors or business activities that are reasonably likely to have a material adverse impact on Park. The Board of Directors further believes that Park’s culture focuses executives on sound risk management and appropriately rewards executives for performance. The Board of Directors further believe that Park’s compensation policies and procedures are reasonable in comparison both to Park’s peer financial services holding companies and to Park’s performance during the 2013 fiscal year.

Similar “Say on Pay” proposals were approved by a significant majority of the common shares voted at Park’s 2013 Annual Meeting as well as at each of Park’s 2012 Annual Meeting of Shareholders, 2011 Annual Meeting of Shareholders, 2010 Annual Meeting of Shareholders and 2009 Annual Meeting of Shareholders, when the “Say on Pay” proposals were required to be submitted to Park’s shareholders in connection with Park’s participation in the U.S. Treasury’s TARP Capital Purchase Program. Park exited the TARP Capital Purchase Program on April 25, 2012.

Shareholders are encouraged to carefully review the information provided in this proxy statement regarding the compensation of Park’s named executive officers in the section captioned “EXECUTIVE COMPENSATION - Compensation Discussion and Analysis” beginning on page 38 of this proxy statement.

Because your vote is advisory, the outcome of the vote will not: (i) be binding upon Park’s Board of Directors or the Compensation Committee with respect to future executive compensation decisions, including those relating to Park’s named executive officers, or otherwise; (ii) overrule any decision made by Park’s Board of Directors or the Compensation Committee; or (iii) create or imply any additional fiduciary duty by Park’s Board of Directors or the Compensation Committee. However, the Compensation Committee expects to take into account the outcome of the advisory vote when considering future executive compensation arrangements.

Recommendation and Vote Required

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS OF PARK VOTE “FOR” THE APPROVAL OF THE NON-BINDING ADVISORY RESOLUTION TO APPROVE THE COMPENSATION OF PARK’S NAMED EXECUTIVE OFFICERS.

The affirmative vote of a majority of the common shares represented at the Annual Meeting, in person or by proxy, and entitled to vote on the proposal is required to approve the non-binding advisory resolution to approve the compensation paid to Park’s named executive officers as disclosed in this proxy statement. The effect of an abstention is the same as a vote “AGAINST” the proposal. Broker non-votes will not be counted in determining whether the proposal has been approved.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Summary

Park’s executive compensation program is managed by the Compensation Committee with input from management and outside advisors as appropriate. The Compensation Committee oversees Park’s executive compensation plans and policies, administers Park’s equity-based compensation plans and annually reviews the compensation of Park’s executive officers. In particular, the Compensation Committee determines the compensation of Park’s named executive officers (“NEOs”), consisting of the following individuals for 2013:

- C. Daniel DeLawder, Chairman of the Board and Chief Executive Officer (the “Chairman/CEO”)
- David L. Trautman, President
- Brady T. Burt, Chief Financial Officer (the “CFO”)

Overall, the Compensation Committee believes the NEOs have been paid conservatively. Their total cash compensation (base salary and annual incentive compensation) has been between the 25^{th} and 50^{th} percentiles of total cash compensation paid to executive officers with similar duties by Park’s peer financial services holding companies in the Midwest Regional Peer Group, which is described on page 42 (the “Midwest Regional Peer Group”). Furthermore, total direct compensation (which includes the value of long-term equity-based awards as well as base salaries and annual incentive compensation) for Park’s NEOs was positioned between the Midwest Regional Peer Group’s 10^{th} and 25^{th} percentiles or well below medians. In comparison, Park’s annual financial performance has historically been superior to that of the median of Park’s peer financial services holding companies, including the Midwest Regional Peer Group and the $3 billion to $10 billion Peer Group described below, which was also the case again in 2013.

In addition, when considering the effectiveness of Park’s compensation program for NEOs in 2013, shareholders should consider that:

- By most measures, Park’s performance in 2013 continued to exceed the median results of all other financial services holding companies in the United States with assets of $3 billion to $10 billion. As of December 31, 2013, there were 128 financial services holding companies in this peer group (the “$3 billion to $10 billion Peer Group”), a list of which is included as Appendix A to this proxy statement.

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- Base salaries for the Chairman/CEO and the President were not changed for 2013 and have not changed in the past three fiscal years. The Compensation Committee decided to leave base salaries unchanged for 2013 for the Chairman/CEO and the President as the Compensation Committee evaluated the structure of Park's executive compensation program and anticipated Mr. Trautman's succession to Mr. DeLawder as CEO. The base salary for Mr. Burt was well below that of other CFOs at financial services holding companies in the Midwest Regional Peer Group and was increased to reduce this difference and reflect his promotion into the CFO role in late 2012.
- Annual incentive compensation awards paid in 2013 (which had been earned in respect of 2012 performance) continued to be relatively modest, amounting to approximately 20% of 2013 base salary for the Chairman/CEO, the President and the CFO.
- While shareholders approved the Park National Corporation 2013 Long-Term Incentive Plan (the "2013 LTIP") at Park's 2013 Annual Meeting, no awards were granted under the 2013 LTIP during 2013.
- NEOs receive the same fringe benefits as other employees, except that Park maintains a supplemental executive retirement plan ("SERP") and entered into an individual SERP agreement with each of Messrs. DeLawder and Trautman. The individual SERP agreements make up for regulatory limits that apply to Park's Defined Benefit Pension Plan (the "Park Pension Plan") and the Park KSOP, and are intended to provide total retirement benefits (in terms of income replacement) for those NEOs that are similar to those available to other employees in the Park organization with similar years of service. As a result, Park's NEOs do not receive benefits that are greater than those they would have otherwise received under Park's retirement plans if the regulatory limits had not been in place.
- Park provides a modest annual car allowance of $8,940 to the Chairman/CEO and the President, which serves a legitimate business need.
- Park does not offer employment contracts, change-in-control agreements or termination benefits to NEOs, in contrast to practices which are fairly common among other financial services holding companies of Park's size.

The discussion that follows summarizes the foregoing factors and examines (a) Park's compensation philosophy and objectives, (b) the process used to set executive compensation for 2013, (c) the factors influencing compensation in 2013, (d) the elements of compensation awarded and (e) other policies affecting Park's executive compensation program.

Compensation Philosophy and Objectives

Park's success depends largely on the contributions of motivated, focused and energized executives at each of Park's subsidiaries (and their divisions), all working to achieve Park's strategic objectives. The Compensation Committee and Park's senior leadership develop compensation programs for executives within the Park organization intended to provide a total compensation package that:

- Attracts, rewards and retains NEOs and other highly-qualified associates.

- Motivates NEOs as well as other associates to achieve Park's annual, long-term and strategic goals.

- Rewards individual effort and performance with the primary objective of improving return on average common equity ("ROACE") and aligning pay levels of the NEOs relative to their peers serving with financial services holding companies in the Midwest Regional Peer Group taking into consideration Park's results as compared to results for financial services holding companies in both the Midwest Regional Peer Group and the $3 billion to $10 billion Peer Group.

- Encourages ownership of Park common shares by the NEOs and other executives within the Park organization to foster an ownership culture.

Process Used to Set Compensation for 2013

The following three groups worked together to establish Park's compensation program for 2013:

- Compensation Committee
- Senior Leadership
- Outside Advisors

Role of Compensation Committee

The Compensation Committee is responsible for overseeing Park's current executive compensation programs and approving any modifications to these programs, subject to any required approval by Park's shareholders. The Compensation Committee may request information from senior leadership within the Park organization regarding Park's performance, compensation practices and programs to assist the Compensation Committee in its deliberations. The Compensation Committee retains the right to hire outside advisors as needed to assist the Compensation Committee in reviewing and revising Park's compensation programs. In addition, these outside advisors may provide information regarding competitive compensation levels, practices and policies in light of current trends.

The Compensation Committee annually assesses the performance of Park and the Chairman/CEO's level of achievement of annual performance goals, many of which are subjective in nature. Based on this evaluation, the Compensation Committee determines the Chairman/CEO's compensation for the year. The Compensation Committee also reviews the Chairman/CEO's compensation recommendations for both the President and the CFO, seeks appropriate input from Park's outside advisors and other members of senior leadership within the Park organization and approves final compensation levels. Finally, the Compensation Committee provides guidance to the Chairman/CEO and the President regarding the compensation of other executives of Park's subsidiaries.

Role of Senior Leadership

Members of senior leadership within the Park organization serve in an advisory or support capacity to the Compensation Committee. Typically, the Chairman/CEO and the President of Park as well as the Senior Vice President of Human Resources and Marketing of Park National Bank participate in meetings of the Compensation Committee. The CFO of Park may participate as necessary or at the Compensation Committee's request. These individuals provide the Compensation Committee with information regarding Park's performance and the performance of key executives of Park's subsidiaries who participate in Park's various compensation programs, such as historical compensation and benefit levels, plan costs, context for how compensation programs have changed over time and input regarding particular management issues that need to be addressed. Senior leadership normally furnishes similar information to the Compensation Committee's outside advisors.

Senior leadership provides input regarding the compensation recommendations made by outside advisors or the Compensation Committee. Senior leadership may also present alternatives to these compensation recommendations for the Compensation Committee's consideration; however, the Compensation Committee is the ultimate decision-making body. Senior leadership implements, communicates and administers the programs approved by the Compensation Committee and reports any questions, concerns or issues.

The Chairman/CEO has annually evaluated the performance of the President and the CFO, include their respective levels of achievement of annual performance goals, many of which are subjective in nature. Based on this evaluation, the Chairman/CEO has recommended the compensation for both the President and the CFO for consideration, input and approval by the Compensation Committee. The Compensation Committee authorizes the Chairman/CEO and the President to establish the compensation for the Senior Vice Presidents (other than the CFO) of Park's subsidiary bank Park National Bank and the Division Presidents of Park National Bank's divisions. Members of senior leadership present at Compensation Committee meetings excuse themselves from discussions regarding their individual compensation.

Role of Outside Advisors

The Compensation Committee periodically has engaged and relied on input from outside advisors as the Compensation Committee manages Park's compensation programs. In 2013, the Compensation Committee retained Pay Governance to serve in this role. Pay Governance's lead consultant reports directly to the Chair of the Compensation Committee, who approves Pay Governance's work. Pay Governance's lead consultant also interacts with senior leadership within the Park organization as needed to complete the work requested by the Compensation Committee. Pay Governance provides no services to Park or any of Park's subsidiaries other than those provided to the Compensation Committee, supplementing the Compensation Committee's governance of the executive compensation program. At its December 12, 2013 meeting, the Compensation Committee conducted an assessment to evaluate whether the work performed and to be performed by Pay Governance raises a conflict of interest or compromises the independence of Pay Governance. Based upon this assessment, the Compensation Committee determined that no conflicts of interest exist and Pay Governance qualifies as independent for purposes of the applicable NYSE MKT Rules and SEC rules. The Compensation Committee has also determined that since December 12, 2013, there have been no changes in circumstances through the date of this proxy statement which would require the Compensation Committee to change its determinations.

In 2013, Pay Governance's work focused on assisting Park in the development of selected disclosure in the proxy statement for the 2013 Annual Meeting regarding executive compensation and providing advice as requested by the Compensation Committee and senior leadership. Toward the end of 2013, Pay Governance conducted a review of the competitiveness of Park's executive compensation pay levels relative to other financial services holding companies in the Midwest Regional Peer Group. In addition, Pay Governance provided information regarding how other financial services holding companies determine the compensation of an internally promoted CEO as well as that of an executive Chairman. As part of this work, Pay Governance participated in one of the Compensation Committee's meetings in 2013.

Periodically, the Compensation Committee asks Pay Governance to review Park's Midwest Regional Peer Group and analyze Park's compensation and ROACE results relative to the members of that peer group to establish reasonable and rational compensation levels. The Midwest Regional Peer Group currently consists of the following regional financial services holding companies, all with assets between $4.3 billion and $16.1 billion. The median assets of the members of the Midwest Regional Peer Group generally reflect Park's size.

Midwest Regional Peer Group

1st Source Corporation	NBT Bancorp Inc.
Chemical Financial Corporation	Old National Bancorp
Community Bank System, Inc.	Pinnacle Financial Partners, Inc.
First Commonwealth Financial Corporation	PrivateBancorp, Inc.
First Financial Bancorp.	S&T Bancorp, Inc.
First Merchants Corporation	Taylor Capital Group, Inc.
First Midwest Bancorp, Inc.	TFS Financial Corporation
F.N.B. Corporation	UMB Financial Corporation
MB Financial, Inc.	United Bankshares, Inc.
National Penn Bancshares, Inc.	WesBanco, Inc.

In addition to Pay Governance, the Compensation Committee relies on legal advice from Park's outside counsel, Vorys, Sater, Seymour and Pease LLP, whose attorneys participate in meetings of the Compensation Committee as requested. In connection with obtaining such legal advice, the Compensation Committee has taken into consideration those factors outlined in both SEC Rule 10C-1(b)(4) and Section 805(c)(4) of the NYSE MKT Company Guide.

Park believes its approach to determining the compensation of its NEOs and the key employees of Park's subsidiaries is consistent with the practices for other financial services holding companies of Park's size, reflects best practices regarding the governance of executive compensation programs and supports the compensation program's objectives of delivering reasonable and appropriate compensation aligned with shareholders' interests.

Factors Influencing Compensation in 2013

The following factors influenced Park's compensation program for 2013:

- The shareholders' advisory vote at the 2013 Annual Meeting regarding management's proposal for approval of the compensation of Park's NEOs.
- Park's continued strong financial performance in 2013.
- Park's performance in comparison to both the $3 billion to $10 billion Peer Group and the Midwest Regional Peer Group.
- Pay practices at the Midwest Regional Peer Group.

2013 Shareholders' Advisory Vote on Executive Compensation

At the 2013 Annual Meeting, Park's shareholders approved Park's executive compensation, with the holders of 9,666,933 common shares, or approximately 75.3% of the common shares represented at that Annual Meeting (including common shares representing broker non-votes) and approximately 62.7% of the then outstanding common shares, voting for such approval. Excluding the 2,832,209 common shares represented by broker non-votes, 96.6% of the 10,005,602 total votes cast in respect of the non-binding advisory vote on executive compensation, voted "FOR" approval. Park and the Compensation Committee viewed the results of this advisory vote as an indication that shareholders generally support Park's executive compensation program. While important, the vote was only one of several factors influencing Park's executive compensation decisions and policies for 2013.

Park's Performance in 2013

From an historical perspective, Park's results for 2013 reflected that it continued to perform well in a challenging operating environment for its Ohio-based operations.

- Park's reported net income for 2013 was $77.2 million, a 2% decline from $78.6 million for 2012, which had included a $22.2 million ($14.4 million after-tax) gain from the sale of the Vision Bank business.
- Net income grew by 20.3% when the gain from the sale of the Vision Bank business is excluded from reported results for 2012.
- Return on average assets ("ROAA") increased slightly to 1.15% for 2013 from 1.11% for 2012.
- ROACE was 11.96% for 2013 versus 11.41% for 2012.
- Nonperforming assets in 2013 decreased by 15.1% from 2012.
- Park sustained the level of dividends paid on outstanding common shares during the previous five years while many financial services holding companies had curtailed or eliminated dividends.

Moreover, Park's results continued to significantly exceed the median results of the Midwest Regional Peer Group and the $3 billion to $10 billion Peer Group as illustrated in the following table.

	December 31, 2013			December 31, 2012		
	Park	Midwest Regional Peer Median	$3B to $10B Peer Median	Park	Midwest Regional Peer Median	$3B to $10B Peer Median
ROAA	1.15%	0.98%	1.00%	1.11%	0.97%	1.06%
ROACE	11.96%	8.48%	8.97%	11.41%	8.35%	9.17%
Net Interest Margin	3.61%	3.62%	3.51%	3.83%	3.71%	3.64%
Other Fee Income/Assets	1.10%	1.15%	1.10%	1.37%	1.25%	1.43%
Other Expenses/Assets*	2.84%	2.87%	2.94%	2.78%	2.97%	3.21%
Efficiency Ratio*	63.78%	62.09%	66.83%	57.07%	62.22%	66.70%

*Lower is better

Overall, Park's performance in 2013 supported pay levels for NEOs which are at least on par with the median levels paid to similarly-situated executive officers at other financial services holding companies in each of the Midwest Regional Peer Group and the $3 billion to $10 billion peer group and possibly supports pay levels that are above those median levels.

Elements of Compensation for 2013

Park's compensation program for 2013 relied on the following elements:

- Base salary, which rewards an executive's skills, competencies, experience and individual performance. Base salary can vary based on the achievement of individual goals, the executive's duties and Park's overall performance. Park's performance is particularly relevant because it influences Park's ability to pay or increase base salaries.

- Annual incentive compensation for Messrs. DeLawder, Trautman and Burt as well as other employees, which is discretionary in nature but takes into consideration not only Park's ROACE relative to other financial services holding companies in the $3 billion to $10 billion Peer Group and the Midwest Regional Peer Group but also the Compensation Committee's and the Park senior leadership's subjective evaluation of each individual's performance.

- Other benefits which address basic life and income security needs as well as recognize an individual's contributions to Park and our subsidiaries over such individual's career. For NEOs, these benefits are comparable with those received by other employees, except for participation in the SERP and the receipt of an annual car allowance by the Chairman/CEO and the President.

Approximately 80% of the NEOs' total direct compensation (the total of base salary and annual incentive compensation awards received and the estimated value of long-term equity-based awards granted, if any) in 2013 was delivered in the form of base salary as compared to 100% in 2012 and 2011 (except for the CFO, which was approximately 80% in each year). None of the NEOs received equity-based awards in any of these three years.

Base Salary

Base salary is the annual part of an executive officer's compensation. Park pays base salary to its executive officers to recognize the skills, competencies, experience and individual performance each such executive officer brings to his role. As a result, annual changes in base salary result primarily from changes in the executive officer's responsibilities, an assessment of his annual performance and Park's financial ability to pay base salaries and provide increases to the executive officer.

In determining base salaries for the NEOs for 2013, the Compensation Committee and the Park senior leadership considered the following factors:

- Base salary levels of similarly-situated executive officers at financial services holding companies of similar size and the base salary increases of executive officers of those other financial services holding companies in general and the financial services holding companies in the Midwest Regional Peer Group in particular.
- The merit increase budget for Park's other executives and associates.
- The Compensation Committee's evaluation of the performance of the Chairman/CEO and the evaluation by the Chairman/CEO of the performance of the other NEOs.
- Park's ROACE in 2012, which continued to represent one of the highest levels among the financial services holding companies in the Midwest Regional Peer Group.

Based on these factors, the Compensation Committee agreed to maintain the base salaries for the Chairman/CEO and the President at the same levels as they had been since 2010. As of December 31, 2013, the base salaries for the Chairman/CEO and the President were in the range between the 50th and 75th percentiles of similarly-situated executive officers of financial services holding companies in the Midwest Regional Peer Group, reflecting Park's participation in TARP when it could offer no other forms of compensation, the Compensation Committee's evaluation of Park's executive compensation structure and Mr. Trautman's pending succession to the role of CEO. The base salary for the CFO was increased to reflect his promotion and close the difference between his base salary and the median base salary of the CFOs of financial services holding companies in the Midwest Regional Peer Group. As of December 31, 2013, the CFO's salary approximated the 25th percentile of CFOs serving with financial services holding companies in the Midwest Regional Peer Group.

Annual Incentive Compensation

Annual incentive compensation is an element of pay that is "at risk" and subject to achieving relative performance results with respect to measures such as ROACE. Historically, Park has paid annual incentive compensation awards to motivate and reward achievement of annual financial objectives and individual goals. As a result, annual incentive compensation awards increase executives' focus on specific short-term corporate financial goals. The Compensation Committee made discretionary incentive compensation awards taking into account Park's comparative performance in 2013 (which were paid in 2014) of $275,000 to Mr. DeLawder, $200,000 to Mr. Trautman and $100,000 to Mr. Burt based on the following factors:

- Park's ROACE for the twelve months ended September 30, 2013 relative to the levels of ROACE for the financial services holding companies in the Midwest Regional Peer Group and the $3 billion to $10 billion Peer Group for the same period.
- Park's overall performance for the 2013 fiscal year as measured by Park's ROACE and net income for the twelve months ended December 31, 2013.
- Compensation levels of the NEOs relative to those of similarly-situated executive officers at the financial services holding companies in the Midwest Regional Peer Group.
- The Board of Directors' evaluation of the performance of the Chairman/CEO and the evaluation by the Chairman/CEO of the performance of the other NEOs.

Total Direct Compensation

Total direct compensation levels (base salary and annual incentive compensation paid and long-term equity-based awards granted, if any) for 2013 for the Chairman/CEO, the President and the CFO continued to rank below the median for similarly-situated executive officers at financial services holding companies in the Midwest Regional Peer Group. In comparison, Park's ROACE for 2013 remained significantly better than the median of both the Midwest Regional Peer Group and the $3 billion to $10 billion Peer Group. For these reasons, the Compensation Committee believes the NEOs were conservatively paid. The table below provides total direct compensation actually received by each NEO during each of 2013, 2012 and 2011. Because the amounts in the table reflect what was received during each year rather than what was earned with respect to each year, the numbers reported in the table below in respect of "Annual Incentive Compensation" for each year differ from those reported for each year in the "Bonus" column of the "Summary Compensation Table for 2013" beginning on page 53.

	Base Salary		Annual Incentive Compensation	Total Cash	Long-Term Equity-Based Awards	Total Direct Compensation
C. Daniel DeLawder	2013	$773,525	$151,475	$925,000	$0	$925,000
	2012	$773,525	$0	$773,525	$0	$773,525
	2011	$773,525	$0	$773,525	$0	$773,525
David L. Trautman	2013	$563,250	$136,750	$700,000	$0	$700,000
	2012	$563,250	$0	$563,250	$0	$563,250
	2011	$563,250	$0	$563,250	$0	$563,250
Brady T. Burt	2013	$275,000	$50,000	$325,000	$0	$325,000
	2012	$205,000	$37,500	$242,500	$0	$242,500
	2011	$160,000	$37,500	$197,500	$0	$197,500

Other Benefits

Park provides the NEOs with medical, dental, long-term disability and life insurance benefits under the same programs used to provide these benefits to all other employees of Park's subsidiaries. NEO benefits are not tied to individual or corporate performance, which is the same approach used for other employees. Moreover, changes to the benefits provided to the NEOs reflect changes to the benefits provided to other employees.

The NEOs are also eligible to participate in several retirement programs. These programs recognize contributions made by individuals over their respective careers and benefits normally are paid at retirement. As a result, they can serve as a tool in retaining NEOs and other employees.

- The NEOs may participate in the Park Pension Plan on the same terms and conditions as other employees. The Park Pension Plan provides all participants, including the NEOs, a benefit based on the same formula of years of service and compensation. The Park Pension Plan is discussed under the caption "Post-Employment Payments and Benefits - Pension and Supplemental Benefits - Park Pension Plan" beginning on page 58.
- The NEOs and other employees are eligible to participate in the Park KSOP. Under the Park KSOP, eligible employees can defer a portion of their cash compensation (base salary and bonus/annual incentive compensation) and receive matching contributions by Park. Park's matching contributions in 2013 were 25% on the first 12% of cash compensation contributed by an employee, up to the annual limits imposed under the Internal Revenue Code and U.S. Treasury regulations, in order to balance the cost of the Park KSOP with a desire to encourage employees to save for retirement. While Park's contributions are made in the form of Park common shares to help build stock ownership, participants have the ability to diversify their accounts into other investments, including mutual funds and a "bank savings account" held at Park National Bank.
- The NEOs, with the exception of Mr. Burt, have the opportunity to receive benefits under the SERP, which is a nonqualified deferred compensation plan that permits the NEOs to accumulate retirement income in excess of the limitations imposed through the Park Pension Plan and the Park KSOP. The SERP allows the participating NEOs to accrue retirement benefits as a percent of compensation comparable to those of other employees which is not possible under the Park Pension Plan and the Park KSOP solely because the participating NEOs receive relatively higher compensation.

SERP benefits are forfeited if a participant terminates employment with Park prior to age 62. As a result of the forfeiture provision, the SERP helps enhance the retention and recruitment of highly-qualified executives.

In addition, the SERP provides several important protections to Park. A participant must repay any SERP benefits received and forfeit any right to future SERP benefits if, following the participant's termination, Park determines that "cause" existed to terminate the participant prior to receipt of such benefits. A participant also forfeits any SERP benefits if, within twelve months of the participant's separation from service, the participant violates the noncompetition and non-solicitation provisions of the SERP.

- Park maintains split-dollar life insurance policies on behalf of each of the NEOs under which Park will receive proceeds in an amount equal to the premiums paid up to the date of death of the NEO plus earnings accrued in respect of the policy since the inception of the policy. Each NEO has the right to designate a beneficiary to whom the NEO's share of the proceeds under the policy (approximately two times the NEO's highest annual total compensation during the NEO's employment with Park) is to be paid. The split-dollar life insurance policies for the Chairman/CEO and the President remain in effect following each individual's retirement as long as he is fully vested in the Park Pension Plan, has reached age 62, has not been employed by another financial services firm and was not terminated for cause. Mr. Burt's split-dollar life insurance policy is subject to the same vesting conditions as apply to the policies for the Chairman/CEO and the President and remains in effect until he reaches the age of 70, at which time it expires. If their share of the proceeds under their respective split-dollar life insurance policies were computed as of December 31, 2013, Messrs. DeLawder, Trautman and Burt's share (or death benefit) would have been $1,911,980, $1,270,880 and $579,385, respectively.
- Historically, Park has provided the NEOs with few perquisites in comparison to other financial services holding companies of similar size. Currently, Park only provides the Chairman/CEO and the President with a modest car allowance of $745 per month or $8,940 annually, which has not changed since 2008. Executives are not provided a tax gross-up for any imputed personal income associated with this benefit.
- Park has not historically entered into employment or change-in-control agreements with executive officers as part of its compensation program.

Other Compensation Policies

Accounting: Park is subject to the general prohibition under Section 162(m) of the Internal Revenue Code on taking a federal income tax deduction for consideration paid in excess of $1,000,000 in any taxable year to Park's executive officers (other than the CFO). Section 162(m) exempts qualified performance-based compensation, among other things, from this deductibility limitation. The Compensation Committee intends to tailor long-term equity-based awards granted under the 2013 LTIP so such awards will qualify as qualified performance-based compensation under Section 162(m). Park does not have a policy that requires all compensation paid to its NEOs in a fiscal year, including 2013, to be tax deductible. While the Compensation Committee carefully considers the net cost and value to Park of maintaining the deductibility of all compensation, it also desires the flexibility to reward NEOs and other executives in a manner that enhances Park's ability to attract and retain individuals as well as to create longer term value for shareholders. Thus, income tax deductibility is only one of several factors the Compensation Committee considers in making decisions regarding Park's compensation program. Moreover, the Compensation Committee believes the incremental cost of any lost deduction will be relatively modest.

Clawbacks: As discussed above, Park can recover SERP payments received by an NEO if Park determines that the NEO could have been terminated for cause prior to the receipt of benefits.

Hedging: Park’s Insider Trading Policy prohibits NEOs and other employees from hedging the economic risk associated with their ownership of Park common shares.

Stock Ownership Guidelines: While Park’s compensation program aims to encourage and build stock ownership, Park has not adopted stock ownership guidelines that are common at other companies. Nonetheless. Park’s NEOs and non-NEO directors have personal stock holdings that are significantly greater than the typical stock ownership requirements.

Individual Or Group	Value of Common Share Holdings (12/31/2013)	2013 Base Salary or Total Director Compensation	Value of Common Share Holdings / 2013 Base Salary or Total Director Compensation	Typical Practice for Individual Holding Same Position
C. Daniel DeLawder	$ 10,513,291	$ 773,525	13.6X	5 x Salary
David L. Trautman	$ 4,431,126	$ 563,250	7.8X	3-4 x Salary
Brady T. Burt	$ 271,714	$ 275,000	1X	3 x Salary
Average for Non-NEO Directors (1)	$ 2,992,082	$ 59,249	50.5X	3 x Retainer

(1) Does not include C. Daniel DeLawder or David L. Trautman

2014 Compensation Decisions

The Compensation Committee met on December 18, 2013 to determine annual incentive compensation for 2013 results as described on page 45. At that meeting, the Compensation Committee also considered changes in base salaries reflecting Park’s previously-announced succession plans. At the end of 2013, Mr. DeLawder retired as CEO but continues to serve as Chairman of the Board and an executive employee and Mr. Trautman assumed the CEO role. As a result of this change, the Compensation Committee requested and received input from Pay Governance as to on how other financial services holding companies of Park’s size determine the compensation of an internally promoted CEO as well as that of an executive Chairman. In addition, they discussed how Park has handled compensation changes in the context of similar transitions in the past. Based on that input, the Compensation Committee reduced Mr. DeLawder’s base salary for 2014 to $563,250 and increased Mr. Trautman’s base salary to $775,000.

At the December 18, 2013 meeting, the Compensation Committee also considered the base salary for Mr. Burt. Based on the Chairman/CEO’s review of Mr. Burt’s performance and the amount representing the 50th percentile level of base salaries for CFOs of financial services holding companies in the Midwest Regional Peer Group, the Compensation Committee approved an increase in Mr. Burt’s base salary for 2014 to $325,000, which remained below the median of similar-situated CFOs at financial services holding companies in the Midwest Regional Peer Group.

On January 24, 2014, the Compensation Committee made its first awards under the 2013 LTIP. These awards had the following terms:

- The awards were in the form of performance-based restricted stock units (“PBRSUs”), with each PBRSU representing the right to receive one Park common share if earned and settled. Each award of PBRSUs also provides the holder with dividend equivalent rights which will vest and be settled in cash if, when and to the extent the related PBRSUs vest and are settled.

- PBRSUs will be earned based on Park's cumulative ROAA for the three-year performance period from January 1, 2014 to December 31, 2016 as compared to the cumulative ROAA results for the $3 billion to $10 billion Peer Group.
- No PBRSUs will be earned, regardless of Park's relative ROAA results, if Park's net income for each fiscal year of the performance period does not equal or exceed 110% of all cash dividends declared and paid during the applicable fiscal year.
- In addition, no PBRSUs will be earned if Park's cumulative ROAA for the performance period is below the 50th percentile (or median) of the $3 billion to $10 billion Peer Group.
- If Park's cumulative ROAA for the performance period equals the 50th percentile of the $3 billion to $10 billion Peer Group, holders of PBRSUs will earn the target number of PBRSUs (or 66.67% of the number granted).
- If Park's cumulative ROAA equals or exceeds the 80th percentile of the $3 billion to $10 billion Peer Group, holders of PBRSUs will earn PBRSUs equal to 150% of the target number (or 100% of the number granted), with the number of PBRSUs earned for results in between the 50th and 80th percentiles determined using interpolation on a straight-line basis.
- Earned PBRSUs will also be subject to additional service-based vesting -- 50% of the PBRSUs earned will vest at the end of the three-year performance period once results are certified by the Compensation Committee, with the other 50% of the earned PBRSUs vesting on the first anniversary of the certification date.
- Common shares received upon settlement of earned and vested PBRSUs cannot be sold, transferred, assigned or otherwise similarly disposed of for five years after the date they are delivered.
- If an NEO dies or terminates employment with Park and its subsidiaries due to disability at any time during the three-year performance period, a prorated portion of the PBRSUs will vest on the last day of the performance period based on the number of PBRSUs that would have been earned based on the level of performance achieved during the performance period and the quotient of the number of full calendar months elapsed between the grant date and the date of death or termination of employment due to disability, as appropriate, divided by the number of months in the performance period.
- If an NEO dies or terminates employment with Park and its subsidiaries due to disability after the performance period has ended but before the service-based vesting requirements have been satisfied, the outstanding unvested PBRSUs will immediately vest.
- If an NEO retires (i.e., has a "normal retirement" or an "early retirement" for purposes of the Park Pension Plan), all outstanding unvested PBRSUs will be forfeited unless the Compensation Committee, in its sole discretion, determines that all or a portion of the PBRSUs should vest.
- If an NEO's employment with Park and its subsidiaries terminates for any other reason, including for "cause" (as defined in the 2013 LTIP), all unvested PBRSUs will be immediately forfeited.
- In the event of a "change in control" (as defined in the 2013 LTIP), each NEO will immediately vest in all unvested PBRSUs as though the cumulative ROAA of Park as

compared to the cumulative ROAA results of the $3 billion to $10 billion Peer Group had been achieved at the 50th percentile of the Peer Group and the other performance-based criteria for vesting as well as the service-based vesting requirement had been satisfied as of the date of the change in control.

The Compensation Committee and management of Park believe similar programs are common among the financial services holding companies in the Midwest Regional Peer Group as well as those in the $3 billion to $10 billion Peer Group. Moreover, Park's program is considerably more demanding than other such programs (e.g., the requirement that annual net income exceeds at least 110% of dividends paid, the fact that no PBRSUs will be earned for results below the 50th percentile of the $3 billion to $10 billion Peer Group, the fact that the maximum number of PBRSUs will be earned for results at the 80th percentile and the five-year post-vesting holding requirement) which aligns the interests of holders of PBRSUs with those of Park's shareholders and emphasizes sustained long-term financial performance. The target number of PBRSUs subject to the January 24, 2014 awards to Messrs. DeLawder, Trautman and Burt were 2,000, 2,000 and 750, respectively. While providing NEOs a meaningful capital accumulation opportunity, the Compensation Committee and management of Park believe the awards are conservative relative to the long-term incentive opportunities received by similarly-situated executive officers at other financial services holding companies of Park's size. Individual PBRSU amounts for the NEOs were based on the Compensation Committee's review of the work provided by Pay Governance, comparing the total direct compensation (including long-term equity based awards) for executive officers at financial services holding companies in the Midwest Regional Peer Group to that of each of the NEOs of Park.

Conclusion

The compensation program in 2013 for Park's NEOs reflects Park's compensation philosophy and is conservative relative to the practices of other financial services holding companies of Park's size. Park's compensation program produced compensation levels in 2013 slightly higher than those for 2012 but below the median total direct compensation levels of similarly-situated executive officers with financial services holding companies in the Midwest Regional Peer Group, despite 2013 financial results for Park that were better than the median performance of financial services holding companies in both the Midwest Regional Peer Group and the $3 billion to $10 billion Peer Group. In addition, the executive compensation program intentionally excludes a number of less attractive compensation practices (e.g., excessive perks, retention awards, employment contracts and change-in-control agreements).

We believe Park's executive compensation program continues to represent shareholders' interests in a responsible and reasonable fashion.

Compensation Committee Report

The Compensation Committee of Park's Board of Directors has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of SEC Regulation S-K with Park's management and, based on such review and discussion, the Compensation Committee recommended to the full Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

Although not required to conduct the risk review and evaluation required of participants in the TARP Capital Purchase Program since Park terminated its participation in such Program on April 25, 2012, as a matter of good governance and best practices, the Compensation Committee reviewed a memorandum prepared by Park's chief risk officer under date of February 19, 2014 in order to review and evaluate Park's compensation plans. The conclusions reached by the Compensation Committee following the review of that memorandum are summarized below:

Risk Analysis

Park's chief risk officer performed a risk review and evaluation of Park's compensation plans. The February 19, 2014 memorandum of Park's chief risk officer concluded that the compensation plans do not include features which incent unnecessary risk taking.

The specific compensation plans reviewed were: (i) the annual incentive compensation program, which provides for annual incentive compensation based on Park's ROACE as compared to that of the $3 billion to $10 billion Peer Group; (ii) the 2013 LTIP pursuant to which Park may grant equity based awards; (iii) miscellaneous incentive plans, which are informal arrangements that allow Park employees to earn small amounts of incentive compensation; (iv) the SERP agreements, pursuant to which Messrs. DeLawder and Trautman and other executives of Park's subsidiaries may receive supplemental pension benefits; and (v) the split-dollar life insurance policies, which provide the NEOs and other executives of Park's subsidiaries with death benefits.

Based on the information provided by Park's chief risk officer, the Compensation Committee concluded that:

- the annual incentive compensation program does not create incentives for Park's NEOs or other employees of Park and its subsidiaries to take unnecessary and excessive risks because the amount of the payment to any individual is discretionary and based in significant part on Park's performance in comparison to other financial services holding companies in the $3 billion to $10 billion Peer Group and the Midwest Regional Peer Group -- the latter being a factor over which employees have little control;
- the types of awards granted under 2013 LTIP - i.e., PBRSUs with performance-based earning and service-based vesting requirements, together with a five-year post-vesting holding requirement, do not create incentives for recipients of the awards to take unnecessary and excessive risks because the number of PBRSUs earned is based on Park's comparative performance and the service-based vesting and post-vesting holding requirements align the long-term interests of the recipients of PBRSU awards with those of Park's shareholders generally;
- the miscellaneous incentive plans do not create incentives for the NEOs or other employees of Park and its subsidiaries to take unnecessary and excessive risks because the amounts payable under these informal arrangements are not a material element of compensation; and
- none of the other plans or arrangements create incentives for the NEOs or other employees of Park and its subsidiaries to take unnecessary and excessive risks because the amounts payable under these plans and arrangements are not contingent on Park's financial or other performance.

Earnings Analysis

The February 19, 2014 memorandum of Park's chief risk officer also concluded that Park's incentive compensation plans do not include features that would encourage the manipulation of Park's reported earnings to enhance the compensation of any individual employee(s).

Based on the information provided by Park's chief risk officer, the Compensation Committee concluded that:

- the annual incentive compensation program does not contain features that would encourage the manipulation of Park's reported earnings to enhance the compensation of any individual employee(s) because the amount of the payment to any individual is discretionary and based in significant part on Park's performance in comparison to other financial services holding companies in the $3 billion to $10 billion Peer Group and the Midwest Regional Peer Group -- the latter being a factor over which employees have little control;

- the types of awards granted under the 2013 LTIP do not contain features that would encourage the manipulation of Park's reported earnings to enhance the compensation of any individual employee(s) because the number of awards earned is based on Park's comparative performance and the service-based vesting and post-vesting holding requirements align the long-term interests of the recipients of PBRSU awards with those of Park's shareholders generally; and

- the miscellaneous incentive plans do not contain features that would encourage the manipulation of Park's reported earnings to enhance the compensation of any individual employee(s) because the amounts payable under these informal arrangements are not a material element of compensation.

Submitted by the members of the Compensation
Committee:
F. William Englefield (Chair)
Stephen J. Kambeitz (since April 22, 2013)
Timothy S. McLain
Leon Zazworsky

Summary Compensation Table

The following table summarizes the total compensation for each of the NEOs for each of the 2013 fiscal year, the 2012 fiscal year and the 2011 fiscal year in accordance with applicable SEC rules. Dollar amounts have been rounded up to the nearest whole dollar. Park has not entered into any employment agreements with any of its NEOs.

No option awards or stock awards were made to the NEOs for the 2013 fiscal year, the 2012 fiscal year or the 2011 fiscal year. As a participant in the TARP Capital Purchas Program until April 25, 2012, Park was prohibited from paying or accruing any bonus, retention award or incentive compensation to or for Messrs. DeLawder and Trautman in respect of the 2011 fiscal year and the 2012 fiscal year prior to April 25, 2012.

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Summary Compensation Table for 2013

Name and Principal Position During 2013 Fiscal Year	Year		Bonus ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(1)	All Other Compensation ($)	Total ($)
C. Daniel DeLawder Chairman of the Board and Chief Executive Officer of Park and Park National Bank (2)	2013	$ 773,525	$275,000(3)	$179,663	$23,491(4)	$1,251,679
	2012	$ 773,525	$151,475(5)	$178,738	$21,593(6)	$1,125,331
	2011	$ 773,525	$0	$358,553	$20,580(7)	$1,152,658
David L. Trautman President and Secretary of Park and President of Park National Bank (8)	2013	$ 563,250	$200,000(3)	(9)	$15,546(10)	$778,796
	2012	$ 563,250	$136,750(5)	$198,644	$15,114(11)	$913,758
	2011	$ 563,250	$0	$125,781	$14,424(12)	$703,455
Brady T. Burt Chief Financial Officer and Treasurer of Park and Senior Vice President and Chief Financial Officer of Park National Bank (13)	2013	$ 275,000	$100,000(3)	$2,157	$4,618(14)	$381,775
	2012	$ 205,000	$50,000(5)	$21,073	$18,783(15)	$295,856

(1) The amounts shown reflect the aggregate change, where such change reflects an increase, in the actuarial present value of the NEO's accumulated benefits under the Park Pension Plan and, where applicable, the SERP (and each individual's SERP Agreement as in effect during the applicable fiscal year), determined using interest rate and mortality rate assumptions consistent with those used in Park's consolidated financial statements. The benefits to be provided under the Park Pension Plan and the SERP (and the related SERP Agreements) are more fully described under the heading "Post-Employment Payments and Benefits" beginning on page 58.

(2) Since January 1, 2014, C. Daniel DeLawder has served as Chairman of the Board of each of Park and Park National Bank and a full-time executive employee of Park National Bank.

(3) The amounts shown reflect the discretionary annual incentive compensation award earned by each of the NEOs as part of the annual incentive compensation program for 2013. The discretionary annual incentive compensation awards are discussed in more detail on page 45 under the heading "Compensation Discussion and Analysis - Elements of Compensation for 2013 - Annual Incentive Compensation."

(4) The amount shown reflects:

- $5,086, representing the amount of the premium deemed to have been paid on behalf of Mr. DeLawder under the split dollar life insurance policy maintained on his behalf by Park National Bank;
- $4,375, representing the matching contribution to the Park KSOP on Mr. DeLawder's behalf to match his 2013 pre tax elective deferral contributions;
- $5,090, representing the amount of the premium deemed to have been paid on behalf of Mr. DeLawder under the split dollar life insurance policy which funds his account under the SERP (and his SERP Agreement as in effect during the 2013 fiscal year); and
- $8,940, representing the aggregate amount of the $745 monthly automobile allowance received by Mr. DeLawder during the 2013 fiscal year.

(5) The amounts shown reflect (a) for Messrs. DeLawder and Trautman, the discretionary annual incentive compensation award earned by each individual with respect to the period from April 25, 2012 through December 31, 2012; and (b) for Mr. Burt, the discretionary annual incentive compensation award earned as a participant in the annual incentive compensation program for 2012. The amounts for Messrs. DeLawder and Trautman reflect the fact that Park was prohibited from paying or accruing any bonus or incentive compensation to the five most highly compensated employees of Park and our subsidiaries during the period that Park was a participant in the TARP Capital Purchase Program, which participation ended on April 25, 2012. Mr. Burt was not subject to this prohibition and participated in the annual incentive compensation program for all of 2012.

(6) The amount shown reflects:

- $4,684, representing the amount of the premium deemed to have been paid on behalf of Mr. DeLawder under the split-dollar life insurance policy maintained on his behalf by Park National Bank;
- $3,614, representing the final matching contribution to the Park KSOP on Mr. DeLawder's behalf to match his 2012 pre-tax elective deferral contributions (of the $4,250 matching contribution which had been reported in the "Summary Compensation Table for 2012" included in Park's Proxy Statement for the 2013 Annual Meeting, $636 was forfeited in 2013 in conjunction with the partial refund of Mr. DeLawder's 2012 pre-tax elective deferral contributions);
- $4,355, representing the amount of the premium deemed to have been paid on behalf of Mr. DeLawder under the split dollar life insurance policy which funds his account under the SERP (and his SERP Agreement as in effect during the 2012 fiscal year); and
- $8,940, representing the aggregate amount of the $745 monthly automobile allowance received by Mr. DeLawder during the 2012 fiscal year.

(7) The amount shown reflects:

- $4,302, representing the amount of the premium deemed to have been paid on behalf of Mr. DeLawder under the split dollar life insurance policy maintained on his behalf by Park National Bank;
- $3,617, representing the final matching contribution to the Park KSOP on Mr. DeLawder's behalf to match his 2011 pre tax elective deferral contributions (of the $4,125 matching contribution which had been reported in the Summary Compensation Table for 2011 included in Park's 2012 Proxy Statement, $508 was forfeited in 2012 in conjunction with the partial refund of Mr. DeLawder's 2011 pre tax elective deferral contributions;
- $3,721, representing the amount of the premium deemed to have been paid on behalf of Mr. DeLawder under the split dollar life insurance policy which funds his account under the SERP (and his SERP Agreement as in effect during the 2011 fiscal year); and
- $8,940, representing the aggregate amount of the $745 monthly automobile allowance received by Mr. DeLawder during the 2011 fiscal year.

(8) Since January 1, 2014, David L. Trautman has served as President and Chief Executive Officer of each of Park and Park National Bank.

(9) The aggregate change in the actuarial present value of Mr. Trautman's accumulated benefits under the Park Pension Plan and the SERP (and his SERP Agreement), determined using interest rate and mortality assumptions consistent with those in Park's consolidated financial statements, decreased by $25,507 during the 2013 fiscal year and, as a result, are not reported in the "Change in Pension Value and Nonqualified Deferred Compensation Earnings" column for 2013 in accordance with the applicable SEC rules.

(10) The amount shown reflects:

- $1,144, representing the amount of the premium deemed to have been paid on behalf of Mr. Trautman under the split dollar life insurance policy maintained on his behalf by Park National Bank;
- $4,375, representing the matching contribution to the Park KSOP on Mr. Trautman's behalf to match his 2013 pre tax elective deferral contributions;
- $1,087, representing the amount of the premium deemed to have been paid on behalf of Mr. Trautman under the split dollar life insurance policy which funds his account under the SERP (and his SERP Agreement as in effect during the 2013 fiscal year); and
- $8,940, representing the aggregate amount of the $745 monthly automobile allowance received by Mr. Trautman during the 2013 fiscal year.

(11) The amount shown reflects:

- $1,042, representing the amount of the premium deemed to have been paid on behalf of Mr. Trautman under the split dollar life insurance policy maintained on his behalf by Park National Bank;
- $4,125, representing the matching contribution to the Park KSOP on Mr. Trautman's behalf to match his 2012 pre-tax elective deferral contributions;
- $1,007, representing the amount of the premium deemed to have been paid on behalf of Mr. Trautman under the split dollar life insurance policy which funds his account under the SERP (and his SERP Agreement as in effect during the 2012 fiscal year); and
- $8,940, representing the aggregate amount of the $745 monthly automobile allowance received by Mr. Trautman during the 2012 fiscal year.

(12) The amount shown reflects:

- $928, representing the amount of the premium deemed to have been paid on behalf of Mr. Trautman under the split-dollar life insurance policy maintained on his behalf by Park National Bank;
- $3,617, representing the final matching contribution to the Park KSOP on Mr. Trautman's behalf to match his 2011 pre-tax elective deferral contributions (of the $4,125 matching contribution which had been reported in the Summary Compensation Table for 2011 included in Park's 2012 Proxy Statement, $508 was forfeited in 2012 in conjunction with the partial refund of Mr. Trautman's 2011 pre-tax elective deferral contributions);
- $939, representing the amount of the premium deemed to have been paid on behalf of Mr. Trautman under the split-dollar life insurance policy which funds his account under the SERP (and his SERP Agreement as in effect during the 2011 fiscal year); and
- $8,940, representing the aggregate amount of the $745 monthly automobile allowance received by Mr. Trautman during the 2011 fiscal year.

(13) Effective December 19, 2012, Mr. Burt succeeded John W. Kozak as the Chief Financial Officer of Park and as the Chief Financial Officer and a Senior Vice President of Park National Bank. He was appointed Treasurer of Park on April 22, 2013. Since January 1, 2014, he has also served as Secretary of Park. For Mr. Burt, this Summary Compensation Table includes information for 2013 and 2012 only, as these are the only years during the applicable three fiscal year period that he qualified as a named executive officer.

(14) The amount shown reflects:

- $243, representing the amount of the premium deemed to have been paid on behalf of Mr. Burt under the split dollar life insurance policy maintained on his behalf by Park National Bank; and

- $4,375, representing the matching contribution to the Park KSOP on Mr. Burt’s behalf to match his 2013 pre tax elective deferral contributions.

(15) The amount shown reflects:

- $169, representing the amount of the premium deemed to have been paid on behalf of Mr. Burt under the split dollar life insurance policy maintained on his behalf by Park National Bank;

- $3,614, representing the final matching contribution to the Park KSOP on Mr. Burt’s behalf to match his 2012 pre-tax elective deferral contributions (of the $4,250 matching contribution which had been reported in the “Summary Compensation Table for 2012” included in Park’s Proxy Statement for the 2013 Annual Meeting, $636 was forfeited in 2013 in conjunction with the partial refund of Mr. Burt’s 2012 pre tax elective deferral contributions); and

- $15,000, representing a one-time bonus payment to Mr. Burt in recognition of his contributions in the course of consummating the sale of the Vision Bank business.

Grants of Plan-Based Awards

Park had two compensation plans in effect during the 2013 fiscal year under which common shares of Park were authorized for issuance to officers and employees of Park and Park’s subsidiaries the 2005 ISO Plan and the 2013 LTIP. The 2005 ISO Plan was terminated on April 22, 2013 upon the approval of the 2013 LTIP by Park’s shareholders.

No incentive stock options were granted under the 2005 ISO Plan to the NEOs or any other employees of Park or any of its subsidiaries during the period from January 1, 2013 through April 22, 2013.

No awards were made under the 2013 LTIP during the 2013 fiscal year.

Outstanding Equity Awards at Fiscal Year-End

None of the NEOs held unexercised incentive stock options at the end of the 2013 fiscal year. As of December 31, 2013, Park had not granted any other form of equity-based award to the NEOs.

Exercises of Incentive Stock Options

None of the NEOs exercised any incentive stock options during the 2013 fiscal year. As of December 31, 2013, Park had not granted any other form of equity-based award to the NEOs.

Awards Granted Under the 2013 LTIP During 2014 Fiscal Year

On January 24, 2014, the Compensation Committee granted awards of PBRSUs (the “2014 PBRSU Awards”) to each of the NEOs. The following schedule shows the minimum/target number of PBRSUs which may be earned (the “Target Award”) and the maximum number of PBRSUs which may be earned (the “Maximum Award”) in respect of the 2014 PBRSU Award granted to each of the NEOs:

Name and Position	Target Award	Maximum Award
C. Daniel DeLawder Chairman of the Board of Park; Chairman of the Board and executive employee of Park National Bank	2,000 PBRSUs	3,000 PBRSUs
David L. Trautman President and Chief Executive Officer of each of Park and Park National Bank	2,000 PBRSUs	3,000 PBRSUs
Brady T. Burt Chief Financial Officer, Secretary and Treasurer of Park; Senior Vice President and Chief Financial Officer of Park National Bank	750 PBRSUs	1,125 PBRSUs

Post-Employment Payments and Benefits

Pension and Supplemental Benefits

Park Pension Plan

The Park Pension Plan covers employees of Park's subsidiaries who have attained age 21 and completed one year of service. Under the Park Pension Plan, annual benefits are paid in monthly installments for life with 120 months of payments guaranteed. For purposes of the Park Pension Plan, an employee's "normal retirement date" is the earlier of the first day of the month coincident with or next following the employee reaching age 70 1/2 or the employee reaching age 65 and completing five years of service.

The amount of annual "normal retirement benefit" to be paid in monthly installments to an eligible employee is the greater of:

- 29% of the average monthly compensation of the employee reduced for expected years of service at normal retirement less than 25; or

- 29% of the average monthly compensation plus 16% of the average monthly compensation in excess of one-twelfth of covered compensation reduced for expected years of service at normal retirement less than 35.

The average monthly compensation of an employee is calculated by averaging the highest five consecutive calendar years of compensation as reported on the employee's Forms W-2 during the ten calendar years preceding the date of determination. Base salary and incentive compensation, including elective deferral contributions, are included in calculating an employee's monthly compensation for purposes of the Park Pension Plan.

In addition, the employees of certain of our subsidiary banks (and their respective divisions) participated in pension plans maintained for their benefit prior to the bank's being acquired by Park and the merger of the bank's pension plan into the Park Pension Plan. Benefits under the Park Pension Plan cannot be less than the sum of the benefit provided under the merged pension plan and the Park Pension Plan based on years of service since the date of merger of the two plans.

Applicable provisions of the Internal Revenue Code currently limit the amount of annual compensation used to determine plan benefits under a defined benefit pension plan, such as the Park Pension Plan, and the amount of plan benefits payable annually under such a plan. Total compensation in excess of the limit will not be taken into account for benefit calculation purposes. The average of the maximum annual total compensation which may be used in determining plan benefits under qualified defined benefit plans for the past five years is $248,000. The 2013 monthly rate of total compensation used to determine benefits was limited to $21,250 per month, which is the equivalent of an annual total compensation of $255,000.

If an employee elects to retire after completing ten years of service and reaching 55 years of age, the employee may receive a monthly benefit for life with 120 months of payments guaranteed beginning at his or her normal retirement date equal to the "accrued benefit" at the early retirement date. Payments to the employee may begin immediately, with the benefit being reduced one fifteenth (1/15th) for the first five years and one thirtieth (1/30th) for the next five years. For purposes of the Park Pension Plan, the "accrued benefit" at any time prior to an employee's normal retirement date is the normal retirement benefit as described above multiplied by a fraction, the numerator of which is the employee's total years of service as of the date of determination and the denominator of which is the employee's expected years of service at normal retirement.

An employee may continue employment with Park and/or one of our subsidiaries after his or her normal retirement date. In such an event, the employee will receive the benefit he or she would have received on his or her normal retirement date actuarially increased to reflect delayed payment. Notwithstanding the foregoing, the benefit received by such an employee will not be less than the benefit accrued at delayed retirement reflecting service and compensation to such date.

Upon the termination of employment after five or more years, an employee has a vested interest in his or her accrued benefit which will be payable on the normal retirement date. An employee will generally have no vested interest if he or she terminates employment after less than five years of service with Park and/or one of our subsidiaries; however, the Park Pension Plan was amended in conjunction with the sale of substantially all of the performing loans, operating assets and liabilities associated with Vision Bank to Centennial Bank on February 16, 2012, in order to fully vest all of the Vision Bank employees upon termination of employment, regardless of their years of service with Vision Bank. An employee who terminates employment with ten or more years of service with Park and/or one of our subsidiaries may elect to receive his or her vested interest as early as age 55.

If an employee becomes totally and permanently disabled prior to his or her normal retirement date and retires after being determined to be disabled by the Compensation Committee for at least six months, he or she will receive a disability retirement benefit equal to his or her "accrued benefit" at disability reduced actuarially for payment preceding normal retirement.

In the event of a married employee's death after the completion of five years of service, but prior to meeting the eligibility requirements for early retirement, the participant will be assumed to have terminated employment the day before his or her death, survived to his or her early retirement date, elected a joint and one-half survivor benefit, and passed away the following day. If an unmarried employee dies prior to the early retirement age, the survivor annuity will be 50% of the 10-year certain and life annuity payable to such employee if such employee had terminated employment one day prior to his or her death.

In the event of a married employee's death after meeting the requirements for early retirement, his or her surviving spouse will receive one-half of the joint and one-half survivor benefit calculated on the day before his or her death. If an unmarried employee or unmarried "inactive" employee dies on or after the early retirement age, the survivor annuity will be computed as if he or she started receiving a 10 year certain and life annuity on the day before his or her death.

For a vested terminated employee, death benefits are calculated the same as for active employees, but based on the employee's accrued benefit at his or her termination date.

An eligible employee of Park and/or one of our subsidiaries may opt to receive his or her benefits pursuant to the following methods of settlement that are actuarially equivalent to the normal form of annuity:

- a benefit to be paid during the employee's lifetime with one-half of the benefit to be continued to be paid to the employee's spouse for his or her lifetime after the employee's death;
- a benefit to be paid during the employee's lifetime with three-fourths of the benefit to be continued to be paid to the employee's spouse for his or her lifetime after the employee's death;
- a benefit to be paid during the employee's lifetime with a percentage of the benefit or the same benefit to be continued to be paid to the employee's spouse for his or her lifetime after the employee's death;
- a benefit payable in equal installments during the employee's lifetime;
- a benefit to be paid for 120 months certain and thereafter for life; or
- an unlimited lump-sum settlement for retirees and a lump-sum settlement under $5,000 for vested employees who have not yet retained retirement age.

It is not possible for an employee's years of service under the Park Pension Plan to exceed the employee's actual years of service with Park and/or our subsidiaries.

Supplemental Executive Retirement Benefits

Each of Messrs. DeLawder and Trautman is entitled to receive additional benefits under the SERP arrangements generally to the degree his projected benefits from the Park Pension Plan and Park's contributions under the Park KSOP and Social Security benefits are less than 40% of his projected annual compensation (salary and bonus) at age 62. Mr. Burt does not participate in any SERP arrangements.

Park or one of our subsidiaries purchased split dollar life insurance policies in order to fund the obligations under the SERP arrangements. Generally, these policies provide a benefit equal to the benefit a SERP participant would have been paid if the SERP participant had not died before age 84. Thus, the policies provide no additional benefit to Messrs. DeLawder and Trautman but help Park and our subsidiaries meet their commitments to them.

Executives with SERP arrangements forfeit their benefits if they terminate their employment with Park prior to age 62, strengthening the retention aspects of this program. However, an individual can receive a partial benefit if his or her termination is related to a substantial disability or a full benefit if there is a change in control of Park.

The SERP arrangements have demanding repayment and forfeiture provisions associated with them. Park can recoup SERP benefits that have already been paid if Park determines there was cause to terminate a SERP participant prior to the SERP participant receiving benefits. Moreover, a SERP participant would forfeit the right to future benefits in such a situation. In addition, SERP participants forfeit their rights to future benefits if they violate certain non-competition, non-solicitation of customers and non-solicitation of employees covenants during a period of 12 months following their separation from service with Park and our subsidiaries. As a result, while the SERP arrangements provide Messrs. DeLawder and Trautman with additional retirement benefits, they also offer important protections to Park, which the Compensation Committee sees as reasonable.

Pension Benefits for 2013

The following table shows the actuarial present value of each NEO's accumulated benefit, including the number of years of service credited to each NEO, under each of the Park Pension Plan and, where applicable, the SERP (and each NEO's SERP Agreement as in effect during the 2013 fiscal year), determined using interest rate and mortality rate assumptions consistent with those used in Park's consolidated financial statements and summarized in Note 13 of the Notes to Consolidated Financial Statements beginning on page 68 of Park's 2013 Annual Report.

Pension Benefits for 2013

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
C. Daniel DeLawder	Park Pension Plan (1)	43	$ 1,118,736	$0
	SERP	17	$ 1,368,561	$0
David L. Trautman	Park Pension Plan	30	$ 406,680	$0
	SERP	6	$ 505,403	$0
Brady T. Burt	Park Pension Plan	6	$ 48,934	$0

(1) Mr. DeLawder is eligible for early retirement under the Park Pension Plan. The present value of his early retirement benefit was $1,130,854 at December 31, 2013. This value increased by $31,642 during the 2013 fiscal year.

Potential Payouts upon Termination of Employment or Change in Control

Supplemental Executive Retirement Benefits

The provisions of the SERP arrangements addressing the impact of a change of control and the subsequent termination of an individual covered thereby are described under the heading "Post-Employment Payments and Benefits - Pension and Supplemental Benefits - Supplemental Executive Retirement Benefits" beginning on page 60.

Other Potential Payouts

Regardless of the manner in which an NEO's employment terminates, he is entitled to receive amounts earned during his term of employment. Such amounts would include:

- the balance of the NEO's account under the Park KSOP;
- unused vacation pay; and

- amounts accrued and vested under the Park Pension Plan paid in accordance with the terms of the Park Pension Plan, as discussed in more detail beginning on page 58 under the heading "Post-Employment Payments and Benefits - Pension and Supplemental Benefits - Park Pension Plan."

If an NEO retires after reaching age 55, in addition to the items identified in the preceding paragraph, the NEO will be entitled to receive a lump-sum payment of the present value of the benefit to which he would have been entitled under the Park Pension Plan, as discussed in more detail beginning on page 58 under the heading "Post-Employment Payments and Benefits - Pension and Supplemental Benefits - Park Pension Plan."
If an NEO retires after reaching age 62, in addition to the items identified in the preceding paragraphs, the NEO will receive:

- if applicable, the supplemental executive retirement benefits discussed on page 60 under the heading "Post-Employment Payments and Benefits - Pension and Supplemental Benefits - Supplemental Executive Retirement Benefits"; and

- continued coverage under the split-dollar life insurance policy maintained on his behalf by Park National Bank, as discussed in more detail beginning on page 46 under the heading "Compensation Discussion and Analysis - Elements of Compensation for 2013 - Other Benefits".

In the event of the death or disability of an NEO, in addition to the benefits identified in the preceding paragraph(s), the NEO or his beneficiary, as appropriate, will receive:

- benefits under Park's disability insurance plan; and

- his share of the proceeds under the split-dollar life insurance policy maintained on his behalf by Park National Bank, as discussed in more detail beginning on page 46 under the heading "Compensation Discussion and Analysis - Elements of Compensation for 2013 - Other Benefits".

The following table summarizes payments which would have been made to Messrs. DeLawder, Trautman and Burt if a retirement or termination event had occurred on December 31, 2013. Actual amounts to be paid out can only be determined at the time of an NEO's actual separation from service with Park.

	Voluntary Termination on 12/31/13	Early Retirement on 12/31/13	Normal Retirement on 12/31/13	Involuntary Not for Cause Termination on 12/31/13	For Cause Termination on 12/31/13	Disability on 12/31/13	Death on 12/31/13
C. Daniel DeLawder							
Park KSOP	$ 1,544,841	$ 1,544,841	$ 1,544,841	$ 1,544,841	$ 1,544,841	$ 1,544,841	$ 1,544,841
Park Pension Plan (1)	$ 1,130,854	$ 1,130,854	$ 1,130,854	$ 1,130,854	$ 1,130,854	$ 1,130,854	$ 1,130,854
SERP - Life Insurance	$ —	$ —	$ —	$ —	$ —	$ —	$ 2,908,453
Split-Dollar Life Insurance	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,911,980
Total	$ 2,675,695	$ 2,675,695	$ 2,675,695	$ 2,675,695	$ 2,675,695	$ 2,675,695	$ 7,496,128
David L. Trautman							
Park KSOP	$ 869,477	(2)	$ 869,477	$ 869,477	$ 869,477	$ 869,477	$ 869,477
Park Pension Plan (1)	$ 406,680	(2)	$ 406,680	$ 406,680	$ 406,680	$ 406,680	$ 406,680
SERP - Life Insurance	$ —	(2)	$ —	$ —	$ —	$ —	$ 1,342,000
Split-Dollar Life Insurance	$ —	(2)	$ —	$ —	$ —	$ —	$ 1,270,880
Total	$ 1,276,157	(2)	$ 1,276,157	$ 1,276,157	$ 1,276,157	$ 1,276,157	$ 3,889,037
Brady T. Burt							
Park KSOP	$ 357,592	(3)	$ 357,592	$ 357,592	$ 357,592	$ 357,592	$ 357,592
Park Pension Plan (1)	$ 48,934	(3)	$ 48,934	$ 48,934	$ 48,934	$ 48,934	$ 48,934
Split-Dollar Life Insurance	$ —	(3)	$ —	$ —	$ —	$ —	$ 579,375
Total	$ 406,526	(3)	$ 406,526	$ 406,526	$ 406,526	$ 406,526	$ 985,901

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(1) Reflects the estimated lump-sum present value of the benefits to which the NEO would be entitled under the Park Pension Plan.
(2) Since, as of December 31, 2013, Mr. Trautman had not reached age 55, he was not eligible for early retirement. However, if Mr. Trautman had retired on December 31, 2013, he would have been eligible to receive the same payments as those identified in the column captioned “Voluntary Termination on 12/31/13”.
(3) Since, as of December 31, 2013, Mr. Burt had not reached age 55, he was not eligible for early retirement. However, if Mr. Burt had retired on December 31, 2013, he would have been eligible to receive the same payments as those identified in the column captioned “Voluntary Termination on 12/31/13”.

EQUITY COMPENSATION PLAN INFORMATION

As of December 31, 2013, Park had one compensation plan under which common shares of Park are authorized for issuance to directors, officers or employees of Park and Park’s subsidiaries in exchange for consideration in the form of goods or services - the 2013 LTIP. In addition, Park maintains the Park KSOP, which is intended to meet the qualification requirements of Section 401(a) of the Internal Revenue Code.

The 2013 LTIP was approved by Park's shareholders.

The following table shows the number of common shares remaining available for future issuance under the 2013 LTIP at December 31, 2013.

Plan category	(a) Number of common shares to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of common shares remaining available for future issuance under equity compensation plans (excluding common shares reflected in column (a)
Equity compensation plans approved by shareholders	—	—	589,450 (1)
Equity compensation plans not approved by shareholders	—	—	—
Total	—	—	589,450 (1)

(1) Includes 589,450 common shares remaining available for future issuance under the 2013 LTIP.

DIRECTOR COMPENSATION

Park uses a combination of cash and stock-based compensation to attract and retain qualified candidates to serve on the Board of Directors. To align the interests of Park's directors and shareholders, Park's Regulations require that all directors of Park be shareholders. Park does not have a requirement which addresses the number of common shares that need to be retained by directors.

The Compensation Committee annually reviews, with the assistance of Pay Governance, certain market information provided by Pay Governance concerning compensation (both cash and non-cash) paid to directors. Based on such information (which showed that the compensation paid by Park to its directors was modest when compared to that paid by peer companies to their directors), the fact that the compensation paid to Park's directors had not changed for six years and consideration of the increased time commitment required of and responsibilities assumed by directors in their service on the Board of Directors and on Board committees, at its January 16, 2013 meeting, the Compensation Committee adopted recommendations for consideration by the full Board with respect to changes in directors' compensation for the 2013 fiscal year. Following consideration of such recommendations, at its January 28, 2013 meeting, the full Board of Directors set the compensation payable to the directors for the 2013 fiscal year, which is described below.

Annual Retainers and Meeting Fees

Annual Retainers Payable in Common Shares

From 2004 to 2012, each director of Park who was not an employee of Park or one of our subsidiaries (a "non-employee director") received, on the date of the regular meeting of the Park Board of Directors held during the fourth fiscal quarter, an annual retainer in the form of common shares awarded under the Park National Corporation Stock Plan for Non Employee Directors of Park National

Corporation and Subsidiaries (the "Directors' Stock Plan"). After the 2013 LTIP was approved by Park's shareholders on April 22, 2013, the Directors' Stock Plan was terminated and the annual retainer in the form of common shares is to be awarded under the 2013 LTIP. The number of common shares awarded as the annual retainer for the 2013 fiscal year was 200 common shares. These common shares were delivered on the date of the regular meeting of the Park Board of Directors held during the fourth quarter of the 2013 fiscal year.

Each non-employee director of Park also serves on the board of directors of either Park National Bank or one of the divisions of Park National Bank, and from 2004 to 2012, received, on the date of the regular meeting of the Park Board of Directors held during the fourth fiscal quarter, an annual retainer in the form of 60 common shares of Park awarded under the Directors' Stock Plan. After the 2013 LTIP was approved by Park's shareholders on April 22, 2013, the full Board of Directors of Park determined that the number of common shares to be awarded in the form of annual retainers for the 2013 fiscal year was to be: (a) 150 common shares for members of the board of directors of Park National Bank; and (b) 100 common shares for members of the board of directors of a division of Park National Bank. These common shares were delivered on the date of the regular meeting of the Park Board of Directors held during the fourth quarter of the 2013 fiscal year.

Cash Compensation

The following table sets forth the cash compensation paid by Park to Park's non-employee directors for the 2013 fiscal year, starting April 22, 2013, and to be paid by Park to Park's non-employee directors for the 2014 fiscal year:

Meeting Fees:	
Each meeting of Board of Directors attended (1)	$1,200
Each meeting of Executive Committee attended	$900
Each meeting of Audit Committee attended	$900
Each meeting of each other Board Committee attended	$600
Annual Retainers(2):	
Annual Retainer for Committee Chairs:	
Audit Committee	$7,500
Nominating Committee	$5,000
Compensation Committee	$5,000
Risk Committee	$5,000
Annual Retainer for Other Committee Members:	
Executive Committee	$5,000
Audit Committee	$5,000
Risk Committee	$2,500
Compensation Committee	$2,500
Investment Committee	$2,500
Nominating Committee	$2,500
Lead Director Additional Annual Retainer	$15,000

(1) If the date of a meeting of the full Board of Directors is changed from that provided for by resolution of the Board and a Park non-employee director is not able to attend the rescheduled meeting, he or she receives the meeting fee as though he or she attended the meeting.
(2) Annual retainers are pro rated based upon a director's period of service on a Board Committee and/or as a Board Committee Chair during the year.

Each non-employee director of Park also serves on the board of directors of either Park National Bank or one of the divisions of Park National Bank and, in some cases, receives a specified amount of cash for such service as well as fees for attendance at meetings of the board of directors of Park National Bank or the applicable division of Park National Bank (and committees of the respective boards).

In addition to the annual retainers and meeting fees discussed above, non-employee directors also receive reimbursement of all reasonable travel and other expenses of attending board and committee meetings.

C. Daniel DeLawder, Harry O. Egger and David L. Trautman receive no compensation for: (i) serving as a member of the Board of Directors of Park; (ii) serving as a member of the board of directors of Park National Bank or one of its divisions; or (iii) serving as a member of any committee of the respective boards. During the 2013 fiscal year and until January 31, 2014, William T. McConnell received no compensation for: (i) serving as a member of the Boards of Directors of Park and Park National Bank; or (ii) serving as a member of any committee of the respective Boards of Directors. Since February 1, 2014, Mr. McConnell has been treated as a non-employee director of Park and is to receive the same compensation as other non-employee directors as described above.

Split-Dollar Life Insurance Policies

Effective as of December 28, 2007, Donna M. Alvarado, Maureen Buchwald, F. William Englefield IV, Dr. Charles W. Noble, Sr., John J. O'Neill, Robert E. O'Neill, Rick R. Taylor and Leon Zazworsky entered into split-dollar agreements (the "Split Dollar Agreements") which amended and restated the split-dollar agreements to which they had been parties. The Split Dollar Agreements are intended to comply with the requirements of Section 409A of the Internal Revenue Code.

Under the terms of each Split-Dollar Agreement, Park National Bank owns the life insurance policy to which the Split-Dollar Agreement relates. Each individual party to a Split-Dollar Agreement has the right to designate the beneficiary(ies) to whom a portion of the death proceeds of the policy are to be paid in accordance with the terms of the Split-Dollar Agreement. Upon the death of the individual, his or her beneficiary(ies) will be entitled to an amount equal to the lesser of (i) $100,000 or (ii) 100% of the difference between the total death proceeds under the policy and the cash surrender value of the policy (such difference being referred to as the "Net at Risk Amount"). In no event will the amount payable to an individual's beneficiary(ies) exceed the Net at Risk Amount in the policy as of the date of the individual's death. Park National Bank will be entitled to any death proceeds payable under the policy remaining after payment to the individual's beneficiary(ies).

Park National Bank maintains split-dollar life insurance policies on behalf of C. Daniel DeLawder, William T. McConnell and David L. Trautman, in their respective capacities as executive officers (and, in the case of Mr. McConnell, a former executive officer) of Park National Bank. Park National Bank will receive proceeds under each policy in an amount equal to the premiums paid up to the date of death plus earnings accrued in respect of the policy since the inception of the policy. Each of Messrs. DeLawder, McConnell and Trautman has the right to designate the beneficiary to whom his share of the proceeds under the policy (approximately two times his highest annual total compensation during his employment with Park National Bank) is to be paid. Each policy remains in effect following the covered individual's retirement as long as the covered individual is fully vested in the Park Pension Plan, has reached age 62, has not been employed by another financial services firm and was not terminated for cause. If Mr. DeLawder's share of the proceeds under his policy were computed as of December 31, 2013, his share would have been $1,911,980. If Mr. McConnell's share of the proceeds under his policy were computed as of December 31, 2013, his share would have been $1,455,000. If Mr. Trautman's share of the proceeds under his policy were computed as of December 31, 2013, his share would have been $1,270,880.

Park National Bank maintains a split-dollar life insurance policy on behalf of Mr. Egger, in his capacity as a former executive officer of the Security National Bank Division. Park National Bank will receive proceeds under the policy in an amount equal to the premiums paid up to the date of death plus earnings accrued in respect of the policy since the inception of the policy. Mr. Egger has the right to designate the beneficiary to whom his share of the proceeds under the policy (approximately three and one-half times his highest annual total compensation during his employment with the Security National Bank Division or $1,597,341) is to be paid. Mr. Egger's policy remained in effect following his retirement as an executive officer of the Security National Bank Division on March 31, 2003.

Change in Control Payments

None of the directors is entitled to payment of any benefits upon a change in control of Park.

Other Compensation

C. Daniel DeLawder and David L. Trautman

C. Daniel DeLawder and David L. Trautman currently serve as executive officers of Park and of Park National Bank. Please see the discussion of their compensation as executive officers under the heading "EXECUTIVE COMPENSATION" beginning on page 38.

William T. McConnell

William T. McConnell was employed by Park National Bank in a non-executive officer capacity during the 2013 fiscal year and until January 31, 2014, and, in such capacity, he received the amount of $33,000 for his services during the 2013 fiscal year. While an employee of Park National Bank, Mr. McConnell was eligible to participate in the employee benefit programs maintained by Park and Park National Bank (and its divisions), including medical, dental and disability insurance plans and the Park KSOP, on the same terms as all other employees of Park and Park National Bank (and its divisions). Effective February 1, 2014, Mr. McConnell became a non-employee director of Park and will receive the same compensation as other non-employee directors of Park.

Harry O. Egger

Harry O. Egger is employed by the Security National Bank Division in a non-executive officer capacity. In such capacity, he received the amount of $33,000 during the 2013 fiscal year. Mr. Egger is eligible to participate in the employee benefit programs maintained by Park and Park National Bank (and its divisions), including medical, dental and disability insurance plans, on the same terms as all other employees of Park and Park National Bank (and its divisions). Although Mr. Egger is also eligible to participate in the Park KSOP, he made no elective deferral contributions during the 2013 fiscal year.

Since March 31, 2003, Mr. Egger has received and will continue to receive a monthly pension benefit under the Park Pension Plan of $6,318.83. In addition, under the provisions of his employment agreement with Security National Bank Division (the term of which ended March 31, 2003), Mr. Egger receives an annual supplemental retirement benefit in the amount of $153,320, which he will be paid for the remainder of his life.

Director Compensation for 2013

The following table summarizes the compensation paid by Park to each individual who served as a non-executive officer director of Park at any time during the 2013 fiscal year for service on the Board of Directors of Park and the board of directors of Park National Bank or a division of Park National Bank. Dollar amounts have been rounded up to the nearest whole dollar.

Director Compensation for 2013

Name (1)	Fees Earned or Paid in Cash ($)	Stock Awards ($) (2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)		All Other Compensation ($)		Total ($)
Donna M. Alvarado	$ 40,425	$ 28,179	$ 0		$ 389	(3)	$ 68,993
Maureen Buchwald	$ 25,600	$ 24,153	$ 0		$ 6,674	(3)	$ 56,427
Harry O. Egger	$ 0	$ 0	$ 9,488	(4)	$ 42,488	(5)	$ 51,976
F. William Englefield IV	$ 44,700	$ 28,179	$ 0		$ 218	(3)	$ 73,097
Stephen J. Kambeitz	$ 31,150	$ 28,179	$ 0		$ 0		$ 59,329
William T. McConnell	$ 0	$ 0	$ 0		$ 55,346	(6)	$ 55,346
Timothy S. McLain	$ 30,750	$ 24,153	$ 0		$ 0		$ 54,903
Dr. Charles W. Noble, Sr.	$ 22,200	$ 28,179	$ 0		$ 1,631	(3)	$ 52,010
John J. O'Neill	$ 33,750	$ 28,179	$ 0		$ 18,644	(3)	$ 80,573
Robert E. O'Neill	$ 27,675	$ 28,179	$ 0		$ 165	(3)	$ 56,019
Rick R. Taylor	$ 19,950	$ 24,153	$ 0		$ 440	(3)	$ 44,543
Sarah Reese Wallace (7)	$ 14,800	$ 0	$ 0		$ 0		$ 14,800
Leon Zazworsky	$ 73,650	$ 28,179	$ 0		$ 389	(3)	$ 102,218

(1) C. Daniel DeLawder, who served as Park's Chairman of the Board and Chief Executive Officer throughout the 2013 fiscal year, and David L. Trautman, who served as Park's President and Secretary throughout the 2013 fiscal year, are not included in this table as they are executive officers of Park and Park National Bank and thus receive no compensation for their services as directors. The compensation received by Messrs. DeLawder and Trautman as executive officers of Park and Park National Bank is shown in the "Summary Compensation Table for 2013" beginning on page 53.

(2) Represents the closing price of Park's common shares on NYSE MKT on October 28, 2013 ($80.51) times the number of common shares granted on that date in the form of an annual retainer

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under the 2013 LTIP. This amount also represents the grant date fair value of the common shares awarded computed in accordance with FASB ASC Topic 718. The following individuals received an aggregate of 350 common shares of Park as an annual retainer: Donna M. Alvarado; F. William Englefield IV; Stephen J. Kambeitz; Timothy S. McLain; Dr. Charles W. Noble, Sr.; John J. O'Neill; Robert E. O'Neill; and Leon Zazworsky. Maureen Buchwald; Timothy S. McLain; and Rick R. Taylor received an aggregate of 300 common shares as an annual retainer.

(3) Reflects the amount of premium deemed to have been paid on behalf of the named individual under the split-dollar life insurance policy maintained on his or her behalf.

(4) During the 2013 fiscal year, earnings in the amount of $9,488 were accrued in respect of the cumulative amount which has been deferred for Mr. Egger's account under the Security National Bank and Trust Co. Second Amended and Restated 1988 Deferred Compensation Plan (the "Security Deferred Compensation Plan"). The proceeds of Mr. Egger's deferred compensation account will be distributed to him in cash upon the termination of his service on the Board of Directors of the Security National Bank Division. As of December 31, 2013, the cumulative amount accrued for Mr. Egger's account under the Security Deferred Compensation Plan was $829,212.

The aggregate change in the actuarial present value of Mr. Egger's accumulated benefits under the Park Pension Plan and the terms of his employment agreement providing for an annual supplemental retirement benefit, determined using interest rate and mortality rate assumptions consistent with those in Park's consolidated financial statements, decreased by $204,774 during the 2013 fiscal year. During the 2013 fiscal year, Mr. Egger received pension benefits under the Park Pension Plan in the aggregate amount of $75,826 and a supplemental retirement benefit under the terms of his employment agreement in the amount of $153,320, which amounts are not included in the amounts shown in this table since these benefits were earned in his capacity as an employee of the Security National Bank Division.

(5) Represents the sum of: (i) $9,488, reflecting the amount of premium deemed to have been paid on behalf of Mr. Egger under the split-dollar life insurance policy maintained on his behalf by the Security National Bank Division; and (ii) $33,000, reflecting the amount he received in his capacity as a non-executive officer employee of the Security National Bank Division during the 2013 fiscal year.

(6) Represents the sum of: (i) $15,714, reflecting the amount of premium deemed to have been paid on behalf of Mr. McConnell under the split-dollar life insurance policy maintained on his behalf by Park National Bank; (ii) $4,569, reflecting the amount of premium deemed to have been paid on behalf of Mr. McConnell under the split-dollar life insurance policy which funds his account under the SERP (and his SERP Agreement); (iii) $33,000, reflecting the amount he received in his capacity as a non-executive officer employee of Park National Bank during the 2013 fiscal year; and (iv) $2,063, representing the contribution to the Park KSOP on Mr. McConnell's behalf to match his 2013 pre-tax elective deferral contributions. During the 2013 fiscal year, Mr. McConnell received an annual targeted benefit under his SERP Agreement of $53,200, which amount is not included in the amounts shown in this table since this benefit was earned in his capacity as executive officer and employee of Park and Park National Bank prior to reaching age 62.

(7) Ms. Wallace resigned as a director of Park and Park National Bank on July 29, 2013.

RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

(Proposal 3)

Crowe Horwath LLP, together with its predecessor Crowe Chizek and Company LLC ("Crowe Horwath"), has served as Park's independent registered public accounting firm since March 15, 2006.

Crowe Horwath audited Park's consolidated financial statements as of and for the fiscal year ended December 31, 2013 and the effectiveness of Park's internal control over financial reporting as of December 31, 2013. Representatives of Crowe Horwath are expected to be present at the Annual Meeting, will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

The appointment of Park's independent registered public accounting firm is made annually by the Audit Committee. Park has determined to submit the appointment of the independent registered public accounting firm to the shareholders for ratification because of such firm's role in reviewing the quality and integrity of Park's consolidated financial statements and internal control over financial reporting. Before appointing Crowe Horwath, the Audit Committee carefully considered that firm's qualifications as the independent registered public accounting firm for Park and the audit scope.

Recommendation and Vote Required

THE AUDIT COMMITTEE AND YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMEND THAT THE SHAREHOLDERS OF PARK VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF CROWE HORWATH.

The affirmative vote of a majority of the common shares represented at the Annual Meeting, in person or by proxy, and entitled to vote on the proposal, is required to ratify the appointment of Crowe Horwath as Park's independent registered public accounting firm for the 2014 fiscal year. The effect of an abstention is the same as a vote "AGAINST". Even if the appointment of Crowe Horwath is ratified by the shareholders, the Audit Committee, in its discretion, could decide to terminate the engagement of Crowe Horwath and to engage another firm if the Audit Committee determines such action is necessary or desirable. If the appointment of Crowe Horwath is not ratified, the Audit Committee will reconsider (but may decide to maintain) the appointment.

AUDIT COMMITTEE MATTERS

Report of the Audit Committee for the Fiscal Year Ended December 31, 2013

Role of the Audit Committee, Independent Registered Public Accounting Firm and Management

The Audit Committee consists of six directors, each of whom qualifies as an independent director under the applicable NYSE MKT Rules and SEC Rule 10A 3. The Audit Committee operates under the Audit Committee Charter adopted by Park's Board of Directors. The Audit Committee is responsible for assisting the Board of Directors in the oversight of the accounting and financial reporting processes of Park and Park's subsidiaries. In particular, the Audit Committee assists the Board of Directors in overseeing: (i) the integrity of Park's consolidated financial statements and the effectiveness of Park's internal control over financial reporting; (ii) the legal compliance and ethics programs established by Park's management and the Board of Directors; (iii) the qualifications and independence of Park's independent registered public accounting firm; (iv) the performance of Park's independent registered public accounting firm and Park's Internal Audit Department; and (v) the annual independent audit of Park's consolidated financial statements. The Audit Committee is responsible for the appointment, compensation and oversight of the work of Park's independent registered public accounting firm. Crowe Horwath was appointed to serve as Park's independent registered public accounting firm for the 2013 fiscal year.

During the 2013 fiscal year, the Audit Committee met nine times, and the Audit Committee discussed the interim financial and other information contained in each quarterly earnings announcement and periodic filings with the SEC with Park's management and Crowe Horwath prior to public release.

Park's management has the primary responsibility for the preparation, presentation and integrity of Park's consolidated financial statements, for the appropriateness of the accounting principles and reporting policies that are used by Park and Park's subsidiaries and for the accounting and financial reporting processes, including the establishment and maintenance of adequate systems of disclosure controls and procedures and internal control over financial reporting. Management also has the responsibility for the preparation of an annual report on management's assessment of the effectiveness of Park's internal control over financial reporting. Park's independent registered public accounting firm is responsible for performing an audit of Park's annual consolidated financial statements and Park's internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") and issuing its report thereon based on such audit and for reviewing Park's unaudited interim consolidated financial statements. The Audit Committee's responsibility is to provide independent, objective oversight of these processes.

In discharging its oversight responsibilities, the Audit Committee regularly met with Park's management, Crowe Horwath and Park's internal auditors throughout the year. The Audit Committee often met with each of these groups in executive session. Throughout the relevant period, the Audit Committee had full access to management as well as to Crowe Horwath and Park's internal auditors. To fulfill its responsibilities, the Audit Committee did, among other things, the following:

- reviewed the work performed by Park's Internal Audit Department;
- monitored the progress and results of the testing of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and other applicable regulatory requirements, reviewed a report from management and Park's Internal Audit Department regarding the design, operation and effectiveness of internal control over financial reporting, and reviewed an audit report from Crowe Horwath regarding Park's internal control over financial reporting;
- reviewed the audit plan and scope of the audit with Crowe Horwath and discussed with Crowe Horwath the matters required to be discussed by auditing standards generally accepted in the United States, including those described in PCAOB Auditing Standard No. 16;
- reviewed and discussed with management and Crowe Horwath the consolidated financial statements of Park for the 2013 fiscal year;
- reviewed management's representations that those consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States and fairly present the consolidated results of operations and financial position of Park and Park's subsidiaries;
- received the written disclosures and the letter from Crowe Horwath required by applicable requirements of the Public Company Accounting Oversight Board regarding Crowe Horwath's communications with the Audit Committee concerning independence, and discussed with Crowe Horwath that firm's independence;
- reviewed all audit and non-audit services performed for Park and Park's subsidiaries by Crowe Horwath and considered whether the provision of non-audit services was compatible with maintaining that firm's independence from Park and Park's subsidiaries; and

- discussed with management and Park's Internal Audit Department Park's systems to monitor and manage business risk, and Park's legal and ethical compliance programs.

Management's Representations and Audit Committee Recommendation

Park's management has represented to the Audit Committee that Park's audited consolidated financial statements as of and for the fiscal year ended December 31, 2013, were prepared in accordance with accounting principles generally accepted in the United States, and the Audit Committee has reviewed and discussed those audited consolidated financial statements with management and Crowe Horwath.

Based on the Audit Committee's discussions with Park's management and Crowe Horwath and the Audit Committee's review of the report of Crowe Horwath to the Audit Committee, the Audit Committee recommended to the full Board of Directors that Park's audited consolidated financial statements be included in Park's 2013 Annual Report and incorporated therefrom into Park's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, for filing with the SEC.

Submitted by the members of the Audit Committee:

Stephen J. Kambeitz (Chair)	Timothy S. McLain
Donna M. Alvarado	Dr. Charles W. Noble, Sr.
Maureen Buchwald	Robert E. O'Neill

Pre-Approval of Services Performed by Independent Registered Public Accounting Firm

Under applicable SEC rules, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent registered public accounting firm employed by Park in order to ensure that those services do not impair that firm's independence from Park. The SEC rules specify the types of non-audit services that an independent registered public accounting firm may not provide to its client and establish the Audit Committee's responsibility for administration of the engagement of the independent registered public accounting firm.

Consistent with the SEC rules, the Audit Committee Charter requires that the Audit Committee review and pre-approve all audit services and permitted non-audit services provided by Park's independent registered public accounting firm to Park or any of Park's subsidiaries. The Audit Committee may delegate pre approval authority to a member of the Audit Committee and, if it does, the decisions of that member must be presented to the full Audit Committee at its next scheduled meeting.

All requests or applications for services to be provided by the independent registered public accounting firm must be submitted to the Audit Committee by both the independent registered public accounting firm and Park's Chief Financial Officer, and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC rules governing the independence of the independent registered public accounting firm.

Fees of Independent Registered Public Accounting Firm

Audit Fees

The aggregate audit fees billed by Crowe Horwath for the 2013 fiscal year and the 2012 fiscal year were approximately $548,500 and $588,000, respectively. These amounts include fees for professional services rendered by Crowe Horwath in connection with the audit of Park's consolidated financial statements and internal control over financial reporting and reviews of the consolidated financial statements included in Park’s Quarterly Reports on Form 10 Q. Included in the amount for 2012 is $71,000 related to incremental audit procedures performed as a result of Park’s restatement of its audited consolidated financial statements for the 2010 fiscal year and its unaudited consolidated condensed financial statements for the quarterly periods ended March 31, 2011, June 30, 2011 and September 30, 2011.

Audit-Related Fees

The aggregate fees for audit-related services rendered by Crowe Horwath for the 2013 fiscal year were approximately $54,950. This amount includes fees associated with the issuance of a consent in connection with one Registration Statement on Form S-8 filed by Park, fees for audits of the Park Pension Plan and the Park KSOP for the 2013 fiscal year and fees for audits of escrow accounts maintained by the title agency subsidiary of Park.

The aggregate fees for audit-related services rendered by Crowe Horwath for the 2012 fiscal year were approximately $50,800. This amount includes fees associated with the issuance of consents in connection with two Registration Statements on Form S-3 filed by Park, fees related to accounting services provided in connection with the sale of the Vision Bank business, fees for audits of the Park Pension Plan and the Park KSOP for the 2012 fiscal year and fees for audits of escrow accounts maintained by the title agency subsidiary of Park.

Tax Fees

The aggregate fees for tax services rendered by Crowe Horwath for the 2013 fiscal year and the 2012 fiscal year were approximately $66,650 and $72,610, respectively, and primarily pertain to the preparation of federal and state tax returns for Park and Park’s subsidiary banks in each year.

All Other Fees

For the 2013 fiscal year, no fees other than those discussed above under “Audit Fees,” “Audit-Related Fees” and “Tax Fees” were paid to Crowe Horwath.

For the 2012 fiscal year, the fees pertaining to other services rendered by Crowe Horwath totaled approximately $5,065 and related to other miscellaneous services rendered.

All of the services rendered to Park and Park’s subsidiaries by Crowe Horwath for the 2013 fiscal year and the 2012 fiscal year had been pre-approved by the Audit Committee.

SHAREHOLDER PROPOSALS FOR 2015 ANNUAL MEETING

Proposals by shareholders intended to be presented at the 2015 Annual Meeting of Shareholders must be received by the Secretary of Park no later than November 10, 2014, to be eligible for inclusion in Park’s proxy, notice of meeting, proxy statement and Notice of Internet Availability of Proxy Materials relating to the 2015 Annual Meeting. Park will not be required to include in its proxy, notice of meeting, proxy statement or Notice of Internet Availability of Proxy Materials, a shareholder proposal that is received after that date or that otherwise fails to meet the requirements for shareholder proposals established by the applicable SEC rules.

The SEC has promulgated rules relating to the exercise of discretionary voting authority under proxies solicited by the Board of Directors. If a shareholder intends to present a proposal at the 2015 Annual Meeting of Shareholders without inclusion of that proposal in Park’s proxy materials and written notice of the proposal is not received by the Secretary of Park by January 24, 2015, or if Park meets other requirements of the applicable SEC rules, the proxies solicited by the Board of Directors for use at the 2015 Annual Meeting will confer discretionary authority to vote on the proposal should it then be raised at the 2015 Annual Meeting.

In each case, written notice must be given to Park's Secretary, whose name and address are:

Brady T. Burt
Chief Financial Officer, Secretary and Treasurer
Park National Corporation
50 North Third Street
Post Office Box 3500
Newark, Ohio 43058-3500

Shareholders desiring to nominate candidates for election as directors at the 2015 Annual Meeting must follow the procedures described under the heading "Nominating Procedures" beginning on page 20.

FUTURE ELECTRONIC ACCESS TO PROXY MATERIALS AND ANNUAL REPORT

Registered shareholders can reduce the costs incurred by Park in mailing proxy materials by consenting to receive all future proxy statements, proxy cards, annual reports to shareholders and Notices of Internet Availability of Proxy Materials electronically via electronic mail or the Internet. To register for electronic delivery of future proxy materials, log onto www.parknationalcorp.com and follow the instructions for "Electronic Delivery of Proxy Materials." You will be responsible for any fees or charges you would typically pay for access to the Internet.

OTHER MATTERS

As of the date of this proxy statement, the Board of Directors knows of no matter that will be presented for action by the shareholders at the Annual Meeting other than those matters discussed in this proxy statement. However, if any other matter requiring a vote of the shareholders properly comes before the Annual Meeting, the individuals acting under the proxies solicited by the Board of Directors will vote and act according to their best judgments in light of the conditions then prevailing, to the extent permitted under applicable law.

It is important that your proxy card be completed, signed, dated and returned promptly. If you do not expect to attend the Annual Meeting in person, please complete, sign, date and return your proxy card in the postage-prepaid envelope provided as promptly as possible. Alternatively, refer to the instructions on the proxy card, or in the e-mail sent to you if you registered for electronic delivery of the proxy materials for the Annual Meeting, for details about transmitting your voting instructions via the Internet or by telephone.

By Order of the Board of Directors,

BRADY T. BURT

March 10, 2014

Chief Financial Officer, Secretary
and Treasurer

FINANCIAL SERVICES HOLDING COMPANIES INCLUDED IN
$3 BILLION TO $10 BILLION PEER GROUP

Financial Services Holding Company Name	Home Office Location
1st Source Corporation	South Bend, IN
Amarillo National Bancorp, Inc.	Amarillo, TX
Ameris Bancorp	Moultrie, GA
Banc of California, Inc.	Irvine, CA
BancFirst Corporation	Oklahoma City, OK
The Bancorp, Inc	Wilmington, DE
Bangor Bancorp, MHC	Bangor, ME
Bank Leumi Le-Israel Corporation	New York, NY
Bank of the Ozarks, Inc.	Little Rock, AR
Banner Corporation	Walla Walla, WA
BBCN Bancorp, Inc.	Los Angeles, CA
Beal Financial Corporation	Plano, TX
Beneficial SB MHC	Philadelphia, PA
Berkshire Hills Bancorp, Inc.	Pittsfield, MA
Bessemer Group Inc.	New York, NY
BNC Bancorp	High Point, NC
BofI Holding, Inc.	San Diego, CA
Bond Street Holdings, Inc.	Weston, FL
Boston Private Financial Holdings, Inc.	Boston, MA
Bremer Financial Corporation	St. Paul, MN
Brookline Bancorp, Inc.	Boston, MA
BTC Financial Corp.	Des Moines, IA
Cadence Bancorp, LLC	Houston, TX
Capital Bank Financial Corp.	Coral Gables, FL
Capitol Federal Financial, Inc	Topeka, KS
Central Bancompany, Inc.	Jefferson City, MO
Central Pacific Financial Corp.	Honolulu, HI
Century Bancorp, Inc.	Medford, MA
Chemical Financial Corporation	Midland, MI
City Holding Company	Charleston, WV
CM Florida Holdings, Inc.	Coral Gables, FL
Columbia Bank MHC	Fair Lawn, NJ
Columbia Banking System, Inc.	Tacoma, WA
Community Bank System, Inc.	De Witt, NY
Community Trust Bancorp, Inc.	Pikeville, KY
Community Trust Financial Corporation	Ruston, LA
Customers Bancorp, Inc.	Wyomissing, PA
CVB Financial Corp.	Ontario, CA
Dime Community Bancshares, Inc.	Brooklyn, NY
Discount Bancorp, Inc.	New York, NY
Doral Financial Corporation	San Juan, PR
Eagle Bancorp, Inc.	Bethesda, MD
Eastern Bank Corporation	Boston, MA

Financial Services Holding Company Name	Home Office Location
Enterprise Financial Services Corp	Clayton, MO
First American Bank Corporation	Elk Grove Village, IL
First American Financial Corporation	Santa Ana, CA
First Bancorp	Southern Pines, NC
First Banks, Inc.	Clayton, MO
First Busey Corporation	Champaign, IL
First Citizens Bancorporation, Inc.	Columbia, SC
First Commonwealth Financial Corporation	Indiana, PA
First Financial Bancorp.	Cincinnati, OH
First Financial Bankshares, Inc.	Abilene, TX
First Financial Corporation	Terre Haute, IN
First Financial Holdings, Inc.	Columbia, SC
First Interstate BancSystem, Inc.	Billings, MT
First Merchants Corporation	Muncie, IN
First Midwest Bancorp, Inc.	Itasca, IL
First NBC Bank Holding Company	New Orleans, LA
First Security Bancorp	Searcy, AR
Flagstar Bancorp, Inc.	Troy, MI
Flushing Financial Corporation	Lake Success, NY
Glacier Bancorp, Inc.	Kalispell, MT
Great Southern Bancorp, Inc.	Springfield, MO
Hanmi Financial Corporation	Los Angeles, CA
Heartland Financial USA, Inc.	Dubuque, IA
Hilltop Holdings Inc.	Dallas, TX
Home BancShares, Inc.	Conway, AR
HomeStreet, Inc.	Seattle, WA
Independent Bank Corp.	Rockland, MA
INTRUST Financial Corporation	Wichita, KS
Johnson Financial Group, Inc.	Racine, WI
Kearny MHC	Fairfield, NJ
Lakeland Bancorp, Inc.	Oak Ridge, NJ
Lakeland Financial Corporation	Warsaw, IN
Luther Burbank Corp.	Santa Rosa, CA
MB Financial, Inc.	Chicago, IL
Mercantil Commercebank Holding Corporation	Coral Gables, FL
Midamerica Financial Corporation	Des Moines, IA
Middlesex Bancorp, MHC	Natick, MA
Midland Financial Co.	Oklahoma City, OK
National Americas Holdings LLC	New York, NY
National Bank Holdings Corporation	Greenwood Village, CO
National Penn Bancshares, Inc.	Boyertown, PA
NBT Bancorp Inc.	Norwich, NY
New York Private Bank & Trust Corporation	New York, NY
Northwest Bancshares, Inc.	Warren, PA
Ocean Bankshares, Inc.	Miami, FL
OFG Bancorp	San Juan, PR

Financial Services Holding Company Name	Home Office Location
Old National Bancorp	Evansville, IN
PacWest Bancorp	Los Angeles, CA
Park National Corporation	Newark, OH
Pinnacle Bancorp Inc.	Central City, NE
Pinnacle Financial Partners, Inc.	Nashville, TN
Provident Financial Services, Inc.	Jersey City, NJ
Renasant Corporation	Tupelo, MS
Republic Bancorp, Inc.	Louisville, KY
S&T Bancorp, Inc.	Indiana, PA
Salem Five Bancorp	Salem, MA
Sandy Spring Bancorp, Inc.	Olney, MD
Santander BanCorp	Guaynabo, PR
ServisFirst Bancshares, Inc.	Birmingham, AL
Simmons First National Corporation	Pine Bluff, AR
SKBHC Holdings LLC	Seattle, WA
SNBNY Holdings Limited	New York, NY
Southside Bancshares, Inc.	Tyler, TX
Sterling Bancorp	Montebello, NY
Stifel Financial Corp.	Saint Louis, MO
Sun Bancorp, Inc.	Vineland, NJ
SWS Group, Inc.	Dallas, TX
Talmer Bancorp, Inc.	Troy, MI
Taylor Capital Group, Inc.	Rosemont, IL
Tompkins Financial Corporation	Ithaca, NY
TrustCo Bank Corp NY	Glenville, NY
Union First Market Bankshares Corporation	Richmond, VA
United Bankshares, Inc.	Charleston, WV
United Community Banks, Inc.	Blairsville, GA
Valley View Bancshares, Inc.	Overland Park, KS
ViewPoint Financial Group, Inc	Plano, TX
W.T.B. Financial Corporation	Spokane, WA
Washington Trust Bancorp, Inc.	Westerly, RI
WEDBUSH, Inc.	Los Angeles, CA
WesBanco, Inc.	Wheeling, WV
Westamerica Bancorporation	San Rafael, CA
Western Alliance Bancorporation	Phoenix, AZ
Wilshire Bancorp, Inc.	Los Angeles, CA
Woodforest Financial Group, Inc.	The Woodlands, TX
WSFS Financial Corporation	Wilmington, DE

PARK NATIONAL CORPORATION
50 NORTH THIRD STREET
NEWARK, OH 43055
VOTE BY INTERNET - www.proxyvote.com
Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m., Eastern Daylight Saving Time, on April 27, 2014.
Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS
If you would like to reduce the costs incurred by Park National Corporation in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports and Notices of Internet Availability of Proxy Materials, as applicable, electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903
Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m., Eastern Daylight Saving Time, on April 27, 2014. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL
Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:
M67183-P47542 KEEP THIS PORTION FOR YOUR RECORDS

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED. DETACH AND RETURN THIS PORTION ONLY
PARK NATIONAL CORPORATION

The Board of Directors recommends you vote "FOR" the Board of Directors' nominees in Item 1 and "FOR" each of the proposals in Items 2 and 3:	For	Against	Abstain
1. Election of four directors, each to serve until the 2017 Annual Meeting of Shareholders:			
1a. C. Daniel DeLawder	r	r	r
1b. Harry O. Egger	r	r	r
1c. Stephen J. Kambeitz	r	r	r
1d. Robert E. O'Neill	r	r	r

2.	Advisory resolution to approve the compensation of the Company's named executive officers.	r	r	r
3.	Ratify the appointment of Crowe Horwath LLP as the independent registered public accounting firm of the Company for the fiscal year ending December 31, 2014.	r	r	r

The undersigned shareholder(s) authorize the individuals designated to vote this proxy to vote, in their discretion, to the extent permitted by applicable law, upon such other matters
(none known by the Company at the time of solicitation of this proxy) as may properly come before the Annual Meeting.

Please sign exactly as your name appears hereon. The signer hereby revokes all prior proxies given by the signer to vote at the Annual Meeting. Please fill in, sign, date and return this proxy card in the enclosed envelope. When signing as Attorney, Executor, Administrator, Trustee or Guardian, please give full title as such. If shareholder is a corporation, please sign the full corporate name by an authorized officer. If shareholder is a partnership or other entity, an authorized person must sign the entity’s name. Joint owners must each sign individually.

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders of Park National Corporation to be held on Monday, April 28, 2014: Park National Corporation's Notice of the 2014
Annual Meeting of Shareholders, Proxy Statement and 2013 Annual Report are available at www.proxyvote.com.

PARK NATIONAL CORPORATION
Proxy for Annual Meeting of Shareholders
April 28, 2014 at 2:00 p.m., Eastern Daylight Saving Time
This Proxy is solicited on behalf of the Board of Directors

The holder(s) of common shares of Park National Corporation (the "Company") hereby appoint(s) F. William Englefield IV and Leon Zazworsky, and each of them, with power to act without the other and with power of substitution, the proxies of the shareholder(s) and hereby authorize(s) them to attend the Annual Meeting of Shareholders of the Company (the "Annual Meeting") to be held at the offices of The Park National Bank, 50 North Third Street, Newark, Ohio 43055, on Monday, April 28, 2014, at 2:00 p.m., Eastern Daylight Saving Time, and to vote all of the common shares which the shareholder(s) is/are entitled to vote at such Annual Meeting. Where a choice is indicated, the common shares represented by this proxy card, when properly executed and returned, will be voted or not voted as specified. If no choice is indicated, the common shares represented by this proxy card will be voted, to the extent permitted by applicable law, "FOR" the election of the nominees listed in Item 1 as directors of the Company and "FOR" each of the proposals in Items 2 and 3. If any other matters are properly brought before the Annual Meeting, or if a nominee for election as a director named in the Proxy Statement who would have otherwise received the required number of votes is unable to serve or for good cause will not serve, the common shares represented by this proxy card will be voted in the discretion of the individuals designated to vote the common shares represented by this proxy card, to the extent permitted by applicable law, on such matters or for such substitute nominee(s) as the directors of the Company may recommend.

If common shares are allocated to the account of a shareholder under the Park National Corporation Employees' Stock Ownership Plan (the "KSOP"), then the shareholder hereby directs the Trustee of the KSOP to vote all of the common shares of the Company allocated to such account under the KSOP in accordance with the instructions given herein, at the Company's Annual Meeting, on the matters set forth on the reverse side. If no instructions are given, the common shares allocated to the shareholder's account under the KSOP will be voted by the Trustee of the KSOP pro rata in accordance with the instructions received from other participants in the KSOP who have voted.

The shareholder(s) hereby acknowledge(s) receipt of the Notice of Annual Meeting of Shareholders and the related Proxy Statement for the April 28, 2014 Annual Meeting, as well as the Company's 2013 Annual Report.

Continued and to be signed and dated on reverse side