FIRST HORIZON NATIONAL CORP
Form 8-K
April 28, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K
CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Date of Report (Date of earliest event reported): April 28, 2008
First Horizon National Corporation
(Exact name of registrant as specified in its charter)

TN	**001-15185**	**62-0803242**
(State or other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification Number)

165 Madison Avenue	
Memphis, TN	**38103**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone number, including area code: **(901) 523-4444**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:
o Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 8.01 Other Events

1. Selected First Quarter Earnings Release Highlights

On April 17, 2008, First Horizon National Corporation (First Horizon) announced its financial results for its first fiscal quarter. Net income was $7.9 million or $0.06 per diluted share in first quarter 2008 compared to a net loss of $248.6 million or $1.97 per diluted share in fourth quarter 2007. The pre-tax loss for First Horizon, before discontinued operations, was $1.1 million in first quarter 2008 compared to a $399.1 million pre-tax loss in fourth quarter 2007. Total revenues were $677.2 million in first quarter compared to $319.0 million in fourth quarter 2007. Noninterest expenses were $438.3 million compared to $561.5 million in fourth quarter 2007. Provision for loan losses increased $83.4 million to $240.0 million in first quarter 2008.

In first quarter 2008, average total loans increased 1 percent in comparison to fourth quarter 2007 as an increase in the mortgage warehouse was offset by a reduction in the national construction portfolios. Total average deposits decreased 9 percent for the same time period, which reflects a continuing shift from wholesale certificates of deposit to more stable funding sources and the divestiture of First Horizon Bank branches. Consolidated net interest margin increased to 2.81 percent from 2.77 percent as the reduction of short-term rates lowered wholesale borrowing costs.

A very challenging industry and economic environment and an active process to identify portfolio deterioration led to increased provisioning and reserves. First Horizon continues to consider near-term strategic alternatives to reduce its mortgage business and intends to continue investing in its regional banking and capital markets businesses. Additional information concerning those alternatives is presented in section 2 of this Item 8.01.

Performance Highlights (First Quarter 2008 vs. Fourth Quarter 2007)

Segment Revisions Highlight Core Businesses, Provide Visibility Into National Businesses

In first quarter 2008, First Horizon revised its business line segments to better align with its strategic direction, representing a focus on its regional banking franchise and capital markets business. To implement this change, the prior Retail/Commercial Banking segment was split into its major components with the national portions of consumer lending and construction lending assigned to a new National Specialty Lending segment that more appropriately reflects the ongoing wind down of these businesses. Additionally, correspondent banking was shifted from Retail/Commercial Banking to the Capital Markets segment to better represent the complementary nature of these businesses. To reflect its geographic focus, the remaining portions of the Retail/Commercial Banking segment now represent the new Regional Banking segment. All prior period information disclosed below has been revised to conform to the current segment structure and the discussions below are based on the new segment presentation.

Increased Provisioning Reflects Portfolio Deterioration; Charge-Offs Increase Sequentially

The net charge-off ratio was 181 basis points in first quarter 2008 compared to 93 basis points in fourth quarter 2007 as net charge-offs increased to $99.1 million from $50.8 million in fourth quarter 2007. The ratio of allowance to total loans increased to 2.20 percent from 1.55 percent in the prior quarter. Provision for loan losses increased to $240.0 million in first quarter 2008 from $156.6 million in fourth quarter 2007. The provision for first quarter 2008 reflects recognition of portfolio deterioration due to declining economic conditions, especially in national construction and home equity loans. First Horizon continues to apply focused portfolio management activities to identify problem assets. Provisioning for fourth quarter 2007 reflected recognition of inherent losses within residential construction portfolios, including One-Time Close and Homebuilder Finance, related to discontinued product structures and higher-risk national markets such as Florida, California, Virginia, Georgia and Nevada. The nonperforming asset ratio increased to 278 basis points in first quarter 2008 from 166 basis points in fourth quarter 2007.

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Regional Banking Experiences Increased Provisioning, NIM Compression, Benefits of Efficiency Initiatives

Regional Banking recognized a pre-tax loss of $18.2 million for first quarter 2008, compared to pre-tax income of $53.3 million for fourth quarter 2007. The current quarter s loss was primarily driven by an increase in provision expense to $75.3 million from $16.0 million in prior quarter due to increased deterioration in commercial loans. Net interest margin declined to 4.39 percent in the current quarter compared to 4.74 percent in fourth quarter as the effects of Federal Reserve rate reductions were not fully passed through to deposit customers. Excluding deposits held for sale, average core deposits increased 2 percent over prior quarter. Noninterest income was affected by a seasonal decline in fees from deposit accounts. Noninterest expense decreased as the effects of efficiency initiatives more than offset seasonal increases in personnel costs. Additionally, fourth quarter 2007 included recognition of losses on owned real estate and reductions in value of low income housing investments.

Capital Markets Sees Record Fixed Income Revenues, Affected by Provisioning and Credit Disruptions

Capital Markets recognized pre-tax income of $22.8 million in first quarter 2008 compared to $30.9 million of pre-tax income in fourth quarter 2007. This primarily reflects an increase in provision for correspondent banking loans to $15.0 million from $1.2 million. Fixed income sales increased significantly as the Federal Reserve significantly reduced rates during the quarter which resulted in a steeper yield curve. This was partially offset by a decline in other product revenues in comparison to the prior quarter primarily resulting from write downs of the warehouse for the pooled trust preferred product. Noninterest expense increased from higher production levels. Additionally, net interest income improved over fourth quarter.

National Specialty Lending Experiences Impact of Credit Losses, Effects of Winding Down Operations

National Specialty Lending had a pre-tax loss of $120.1 million for first quarter 2008 compared to a pre-tax loss of $116.1 million in fourth quarter 2007. Both quarters losses primarily resulted from provisioning for loan losses, including the national construction and consumer lending portfolios. Net interest margin declined due to the increase in nonaccrual construction loans. Noninterest income improved sequentially as repurchase reserves decreased in comparison to fourth quarter 2007 which was partially offset by greater declines in servicing asset values for rate decreases in the current quarter. Noninterest expense declined due to the effects of the business wind down initiated during the quarter.

Mortgage Banking Positively Affected by Improved Performance and Accounting Changes

Mortgage Banking pre-tax income was $51.3 million for first quarter 2008 compared to a pre-tax loss of $254.0 million for fourth quarter 2007. Pre-tax earnings for the current quarter were positively affected by approximately $40 million related to the adoption of new accounting standards, including the prospective election of fair value accounting for mortgage warehouse loans. The prior quarter s pre-tax loss primarily reflected recognition of reductions in values of mortgage servicing rights and other retained interests, impairment of goodwill and the continued deterioration of credit markets during the quarter. Additionally, continuing efforts to reposition Mortgage Banking resulted in the sale of $7.5 billion of servicing during first quarter 2008.

Net interest income increased consistent with the increase in warehouse margin and an increase in average warehouse size. Gain on sale margins declined as effects of credit market pricing stresses continued to result in margins significantly below historical experience. The increase in servicing income compared to prior quarter was primarily due to the reduction in value of servicing assets recognized in the prior quarter to reflect lower values from observable market inputs and third party valuations. In addition, better hedging results also positively impacted current quarter performance due to wider mortgage-swap spreads and decreased options expense. Noninterest expense decreased because the impairment of goodwill and recognition of a legal settlement were recognized in the prior quarter. Noninterest expense was also negatively affected in the current quarter by the recognition of origination costs for loans recognized at elected fair value. Previously these costs had been deferred until delivery of the related loans. This effect was offset by a corresponding increase in gain on sale.

Corporate Segment Reflects Visa IPO and Earnings Enhancement Initiatives

The Corporate segment recognized $65.9 million of securities gains from Visa, Inc. s initial public offering. Additionally, a reversal of non-interest expense totaling $30.0 million was recognized to reflect a partial reduction in the contingent liability for certain Visa litigation matters. Results for first quarter 2008 also include $21.3 million of net charges associated with implementation of restructuring, repositioning and efficiency initiatives.

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Selected Financial Information (unaudited)
SUMMARY QUARTERLY RESULTS
Quarterly, Unaudited

(Thousands)	1Q08	4Q07	3Q07
Income Statement Highlights			
Net interest income	$ 228,092	$ 225,987	$ 237,804
Noninterest income	383,130	103,429	203,475
Securities gains/(losses), net	65,946	(10,442)	
Total revenue	677,168	318,974	441,279
Noninterest expense	438,277	561,559	421,622
Provision	240,000	156,519	43,352
Pre-tax (loss)/income	(1,109)	(399,104)	(23,695)
(Benefit)/provision for income taxes	(8,146)	(146,342)	(9,330)
Income/(loss) from continuing operations	7,037	(252,762)	(14,365)
Income from discontinued operations, net of tax	883	4,137	209
Net income/(loss)	$ 7,920	$ (248,625)	$ (14,156)
Common Stock Data			
Diluted EPS from continuing operations	$ .06	$ (2.00)	$ (.11)
Diluted EPS	.06	(1.97)	(.11)
Diluted shares	126,660	126,089	126,058
Period-end shares outstanding	126,786	126,366	126,388
Dividends declared per share	$ .20	$ .45	$ .45
Balance Sheet Highlights (Period End)			
Total loans, net of unearned income	$ 21,932,020	$ 22,103,516	$ 21,973,004
Total loans held for sale-divestiture (a)	207,672	289,878	565,492
Total deposits	16,188,542	17,032,285	18,635,359
Total deposits-divestiture (a)	118,720	230,418	474,809
Total assets	37,267,945	37,015,461	37,478,252
Total assets-divestiture (a)	216,431	305,734	588,115
Total liabilities	34,860,441	34,584,588	34,761,148
Total liabilities-divestiture (a)	120,590	232,343	514,198

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(Thousands)	1Q08	4Q07	3Q07
Total shareholders equity	2,112,227	2,135,596	2,421,827
Key Ratios & Other			
Return on average assets	.09%	(2.65)%	(.15)%
Return on average equity	1.47%	(42.52)%	(2.31)%
Net interest margin	2.81%	2.77%	2.87%
Efficiency ratio	64.7%	176.1%	95.5%
Book Value Per Share	$ 16.59	$ 16.83	$ 19.08
Tangible Book Value Per Share	14.67	14.86	16.51
FTE employees	9,555	9,941	11,052

			1Q08 Change vs.	
(Thousands)	2Q07	1Q07	4Q07	1Q07
Income Statement Highlights				
Net interest income	$ 239,432	$ 237,419	1%	(4)%
Noninterest income	281,313	272,915	270%	40%
Securities gains/ (losses), net	(1,014)	10,273	NM	NM
Total revenue	519,731	520,607	112%	30%
Noninterest expense	457,240	403,012	(22)%	9%
Provision	44,408	28,486	53%	743%
Pre-tax (loss)/income	18,083	89,109	NM	NM
(Benefit)/provision for income taxes	(3,861)	18,802	NM	NM
Income/(loss) from continuing operations	21,944	70,307	NM	(90)%
Income from discontinued operations, net of tax	179	240	(79)%	268%
Net income/(loss)	$ 22,123	$ 70,547	NM	(89)%
Common Stock Data				
Diluted EPS from continuing operations	$ .17	$ .55	NM	(89)%
Diluted EPS	.17	.55	NM	(89)%
Diluted shares	128,737	128,704	*	(2)%
Period-end shares outstanding	126,237	125,749	*	1%
Dividends declared per share	$ .45	$ .45	(56)%	(56)%

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(Thousands)	2Q07	1Q07	1Q08 Change vs. 4Q07	1Q08 Change vs. 1Q07
Balance Sheet Highlights (Period End)				
Total loans, net of unearned income	$ 22,382,303	$ 22,268,190	(1)%	(2)%
Total loans held for sale-divestiture (a)			NM	NM
Total deposits	21,761,683	22,491,951	(5)%	(28)%
Total deposits-divestiture (a)			NM	NM
Total assets	38,394,084	38,828,766	1%	(4)%
Total assets-divestiture (a)			NM	NM
Total liabilities	35,635,325	36,018,813	1%	(3)%
Total liabilities-divestiture (a)			NM	NM
Total shareholders equity	2,463,482	2,514,676	(1)%	(16)%
Key Ratios & Other				
Return on average assets	.23%	.74%		
Return on average equity	3.57%	11.61%		
Net interest margin	2.79%	2.84%		
Efficiency ratio	88.0%	77.4%		
Book Value Per Share	$ 19.43	$ 19.88		
Tangible Book Value Per Share	16.73	17.22		
FTE employees	11,903	12,018	(4)%	(20)%

NM Not meaningful

* Amount is less than one percent.

(a) Associated with the sale of First Horizon Bank branches

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2. Possible Sale or Downsizing of Mortgage Business

Mortgage Business

First Horizon continues to review its strategy with respect to its mortgage business activities. Based on its current strategy, First Horizon could sell or significantly reduce portions of its mortgage business. Currently, First Horizon is actively engaged in efforts to sell or downsize its national mortgage origination and mortgage servicing business activities. These efforts are not expected to include First Horizon's mortgage loan origination activities associated with its Tennessee-based banking operations. Currently, First Horizon is actively negotiating for a sale of certain parts of its mortgage business, but there can be no certainty that such a transaction will occur or of the final terms of such sale.

If First Horizon is unable to successfully sell portions of its mortgage business as contemplated above, First Horizon may significantly reduce its national mortgage origination activities. Any closing of the mortgage business or portions thereof would likely involve significant expenses primarily related to employee severance, lease cancellations, and other associated assets.

Selected Financial Data About the Mortgage Business

First Horizon s mortgage segment consists of two principal businesses: origination and servicing. The mortgage segment s contribution to First Horizon s consolidated pre-tax income is set forth below:

Selected Pre-Tax Income Data Related to Mortgage Segment

Dollars in Millions

	2007	**2006**	**2005**
First Horizon Consolidated Pre-Tax Income	$ (315.6)	$ 338.1	$ 596.7
Mortgage Segment Pre-Tax Income:			
Origination Prime	$ (247.0)	$ (21.1)	$ 95.5
Origination Non-Prime	(31.7)	(40.8)	5.8
Total Origination	$ (278.7)	$ (61.9)	$ 101.3
Servicing	(34.6)	70.9	85.3
Total Mortgage	$ (313.3)	$ 9.0	$ 186.6

The mortgage origination business consists largely of offices, employees, and customers throughout national real estate markets. Approximately 4% of the origination volume in fiscal 2007 was conducted through First Tennessee Bank branches and related offices and personnel; the remainder was conducted through First Horizon Home Loans offices and personnel.

3. Business Segment Change

Periodically, First Horizon adapts its segments to reflect the manner in which its chief operating decision makers analyze First Horizon s businesses. Effective January 1, 2008, First Horizon changed its segments to reflect the segregation of its national specialty lending businesses and to provide clarity into its core banking business. As such, the Retail/Commercial Banking segment was divided into separate segments for Regional Banking and National Specialty Lending. Further, correspondent banking activities, which were previously included in the Retail/Commerical Banking segment, were moved to the Capital Markets segment. Accordingly, results for prior periods have been adjusted to reflect the reclassification of such segments.

Financial Information Related to Segment Change

After the segment change, First Horizon has five business segments, Regional Banking, Capital Markets, National Specialty Lending, Mortgage Banking and Corporate. The Regional Banking segment offers financial products and services, including traditional lending and deposit taking to retail and commercial customers in Tennessee and the surrounding markets. Additionally, Regional Banking provides investments, insurance, financial planning, trust services and asset management, credit card, cash management, and check clearing services. The Capital Markets segment consists of traditional capital markets securities activities, structured finance, equity research, investment banking, loan sales, portfolio advisory, and correspondent banking. The National Specialty Lending segment consists of traditional consumer and construction lending activities in national markets outside of Tennessee. The Mortgage Banking segment consists of core mortgage banking elements including originations and servicing and the associated ancillary revenues related to these businesses. The Corporate segment consists of restructuring, repositioning and efficiency initiatives, unallocated corporate expenses, expense on subordinated debt issuances and preferred stock, bank-owned life insurance, unallocated interest income associated with excess equity, net impact of raising incremental capital, revenue and expense associated with deferred compensation plans, funds management, and venture capital.

Total revenue, expense and asset levels reflect those which are specifically identifiable or which are allocated based on an internal allocation method. Because the allocations are based on internally developed assignments and allocations, they are to an extent subjective. This assignment and allocation has been consistently applied for all periods presented. The following table reflects the amounts of consolidated revenue, expense, tax, and assets for each segment for the three years ended December 31:

(Dollars in thousands)	**2007**	2006	2005
Total Consolidated			
Net interest income	**$ 940,642**	$ 996,937	$ 984,027
Provision for loan losses	**272,765**	83,129	67,678
Noninterest income	**859,949**	1,166,893	1,307,256
Noninterest expense	**1,843,433**	1,742,621	1,626,894
Pre-tax (loss)/income	**(315,607)**	338,080	596,711
(Benefit)/provision for income taxes	**(140,731)**	87,278	185,988
(Loss)/income from continuing operations	**(174,876)**	250,802	410,723
Income from discontinued operations, net of tax	**4,765**	210,767	17,072
(Loss)/income before cumulative effect of changes in accounting principle	**(170,111)**	461,569	427,795
Cumulative effect of changes in accounting principle, net of tax		1,345	(3,098)
Net (loss)/income	**$ (170,111)**	$ 462,914	$ 424,697
Average assets	**$ 38,175,420**	$ 38,764,567	$ 36,560,436
Depreciation, amortization, and MSR impairment	**$ 131,634**	$ 144,806	$ 377,075
Expenditures for long-lived assets	**$ 33,539**	$ 100,263	$ 95,661

Certain previously reported amounts have been reclassified to agree with current presentation.

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Business Segment Information (continued)

(Dollars in thousands)	**2007**	2006	2005
Regional Banking			
Net interest income	**$ 547,136**	$ 552,428	$ 504,921
Provision for loan losses	**62,629**	51,984	39,468
Noninterest income	**367,411**	392,140	380,981
Noninterest expense	**631,349**	659,785	620,696
Pre-tax income	**220,569**	232,799	225,738
Provision for income taxes	**73,267**	52,395	53,150
Income from continuing operations	**147,302**	180,404	172,588
Income from discontinued operations, net of tax	**4,765**	210,767	17,072
Income before cumulative effect	**152,067**	391,171	189,660
Cumulative effect of changes in accounting principle, net of tax		394	(3,098)
Net income	**$ 152,067**	$ 391,565	$ 186,562
Average assets	**$ 12,349,726**	$ 11,940,178	$ 11,032,869
Depreciation, amortization, and MSR impairment	**$ 60,055**	$ 59,198	$ 54,419
Expenditures for long-lived assets	**$ 22,508**	$ 80,011	$ 68,567
Capital Markets			
Net interest income	**$ 54,386**	$ 53,441	$ 41,020
Provision for loan losses	**8,097**	2,685	680
Noninterest income	**352,154**	406,395	377,329
Noninterest expense	**328,062**	358,901	334,966
Pre-tax income	**70,381**	98,250	82,703
Provision for income taxes	**26,170**	36,663	31,159
Income before cumulative effect	**44,211**	61,587	51,544
Cumulative effect of changes in accounting principle, net of tax		192	
Net income	**$ 44,211**	$ 61,779	$ 51,544
Average assets	**$ 5,746,595**	$ 6,344,086	$ 6,523,724
Depreciation, amortization, and MSR impairment	**$ 12,274**	$ 15,236	$ 13,632
Expenditures for long-lived assets	**$ 1,091**	$ 4,159	$ 2,825

National Specialty Lending			
Net interest income	**$ 243,921**	$ 288,230	$ 302,738
Provision for loan losses	**194,436**	28,524	26,916
Noninterest income	**21,267**	44,973	34,063
Noninterest expense	**138,084**	161,340	132,493
Pre-tax (loss)/income	**$ (67,332)**	$ 143,339	$ 177,392
(Benefit)/provision for income taxes	**(26,177)**	51,999	66,580
(Loss)/income before cumulative effect	**(41,155)**	91,340	110,812
Cumulative effect of changes in accounting principle, net of tax		115	
Net (loss)/income	**$ (41,155)**	$ 91,455	$ 110,812
Average assets	**$ 9,716,162**	$ 9,891,424	$ 9,183,531
Depreciation, amortization, and MSR impairment	**$ 42,399**	$ 47,621	$ 50,457
Expenditures for long-lived assets	**$ 644**	$ 1,045	$ 837

Certain previously reported amounts have been reclassified to agree with current presentation.

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Business Segment Information (continued)

(Dollars in thousands)	**2007**	2006	2005
Mortgage Banking			
Net interest income	**$ 98,769**	$ 100,547	$ 146,857
Provision for loan losses	**(69)**	(70)	617
Noninterest income	**91,096**	385,231	503,417
Noninterest expense	**503,207**	476,862	463,087
Pre-tax (loss)/income	**(313,273)**	8,986	186,570
(Benefit)/provision for income taxes	**(130,456)**	994	65,059
(Loss)/income before cumulative effect	**(182,817)**	7,992	121,511
Cumulative effect of changes in accounting principle, net of tax		414	
Net (loss)/income	**$ (182,817)**	$ 8,406	$ 121,511
Average assets	**$ 6,377,477**	$ 6,377,754	$ 6,304,567
Depreciation, amortization, and MSR impairment	**$ 16,185**	$ 22,569	$ 248,729
Expenditures for long-lived assets	**$ 7,580**	$ 10,292	$ 22,281
Corporate			
Net interest (expense)/income	**$ (3,570)**	$ 2,291	$ (11,509)
Provision for loan losses	**7,672**	6	(3)
Noninterest income	**28,021**	(61,846)	11,466
Noninterest expense	**242,731**	85,733	75,652
Pre-tax loss	**(225,952)**	(145,294)	(75,692)
Benefit from income taxes	**(83,535)**	(54,773)	(29,960)
Loss before cumulative effect	**(142,417)**	(90,521)	(45,732)
Cumulative effect of changes in accounting principle, net of tax		230	
Net loss	**$ (142,417)**	$ (90,291)	$ (45,732)
Average assets	**$ 3,985,459**	$ 4,211,125	$ 3,515,744
Depreciation, amortization, and MSR impairment	**$ 720**	$ 182	$ 9,838
Expenditures for long-lived assets	**$ 1,715**	$ 4,757	$ 1,151

Certain previously reported amounts have been reclassified to agree with current presentation.

Business Segment Reconciliation Amounts reflect Pre-tax Income (in MM s)

	2007	**2006**	**2005**
Retail/Comm. Banking (Old Presentation)	$ 208.4	$ 434.4	$ 443.3
National Consumer and Construction Lending	50.6	(162.5)	(191.4)

Correspondent Banking	(24.3)	(30.3)	(36.6)
Methodology changes in allocation of expenses and equity	(14.1)	(8.8)	10.4
Regional Banking (New Presentation)	$ 220.6	$ 232.8	$ 225.7
Capital Markets (Old Presentation)	$ 29.4	$ 47.	