ZIONS BANCORPORATION /UT/
Form 8-K
November 04, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

November 4, 2003 (October 16, 2003)

Date of Report (Date of earliest event reported)

Zions Bancorporation

(Exact name of registrant as specified in its charter)

Utah	**0-2610**	**87-0227400**
(State of incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

One South Main, Suite 1134, Salt Lake City, Utah	**84111**
(Address of principal executive offices)	**(Zip Code)**

(801) 524-4787

(Registrant s telephone number,

including area code)

N/A

(Former name or former address, if changed since last report)

ITEM 5. OTHER EVENTS

On October 16, 2003, Zions Bancorporation announced via press release its financial results for the quarter ended September 30, 2003. Excerpts from the press release are set forth below:

*****FOR IMMEDIATE RELEASE*****

FOR: ZIONS BANCORPORATION

One South Main, Suite 1134

Salt Lake City, Utah

Harris H. Simmons

Chairman/Chief Executive Officer

Contact: Clark Hinckley

Tel: (801) 524-4787

October 16, 2003

ZIONS BANCORPORATION REPORTS 2003 THIRD

QUARTER EARNINGS OF $0.68 PER DILUTED SHARE

Results Include Impact of Several Key Strategic Actions

SALT LAKE CITY, October 16, 2003 Zions Bancorporation (Zions or the Company) (Nasdaq: ZION) today reported third-quarter net income of $62.1 million, or $0.68 per diluted share. This net income and earnings per share performance represented an increase of 57.4% and 58.1%, respectively, over the $39.4 million, or $0.43 per diluted share earned for the third quarter of 2002. Income from continuing operations was $64.2 million for the third quarter of 2003, a decrease of 1.8% from the $65.4 million reported for the third quarter of 2002. Income from continuing operations was $0.71 per diluted share for the third quarter of 2003, unchanged from the third quarter of 2002.

Year-to-date net income for 2003 was $242.2 million, or $2.67 per diluted share compared to year-to-date net income of $168.8 million, or $1.83 per diluted share for 2002. Year-to-date income from continuing operations for 2003 was $244.0 million, or $2.69 per diluted share, an increase of 4.7% and 6.7%, respectively, over income from continuing operations of $233.0 million, or $2.52 per diluted share for year-to-date 2002.

Results for the third quarter of 2003 included the impact of several key strategic actions related to Zions previously announced restructuring of Vectra Bank Colorado, the rationalization of branches in Zions Bank, restructuring of debt, and the final disposition of certain strategic investments. The impact of these items is summarized in the following table:

Impact of Strategic Actions

	Income Statement Line Item Affected	Pre-Tax Amount ($ millions)	After-Tax Amount ($ millions)	Diluted EPS Impact
Vectra Restructuring	Impairment loss on goodwill	$ (75.6)	$ (75.6)	$ (0.83)
	Restructuring charges	(0.6)	(0.4)	(0.01)
	Total Impact of Vectra	(76.2)	(76.0)	(0.84)
ZFNB Restructuring	Impairment losses on long-lived assets	(1.2)	(0.7)	(0.01)
Lexign Sale	Discontinued operations: Impairment losses and loss on sale	(2.4)	(1.5)	(0.02)
Debt Extinguishment	Debt extinguishment cost	(24.2)	(15.0)	(0.16)
Sale of Equity Investments	Equity securities gains (losses), net [ICAP, plc]	68.5	42.3	0.47
	Equity securities gains (losses), net [Other]	16.7	10.3	0.11
	Total Sale of Equity Investments	85.2	52.6	0.58
Other Tax Effects of Above Items	Income taxes	N/A	7.3	0.08
Total Impact of Strategic Actions		**$ (18.8)**	**$ (33.3)**	**$ (0.37)**

The $75.6 million of impairment losses on goodwill are intangible losses that arise from write-downs of goodwill and do not impact tangible capital.

Loan and Deposit Growth

Loan growth for the quarter was modest, reflecting the improving but still soft economy and the Company s caution regarding aggressive loan growth in the current economic environment. On-balance-sheet net loans and leases at September 30, 2003 were $19.4 billion. On-balance-sheet and sold loans being serviced were $22.3 billion at September 30, 2003 and increased 4.7% from September 30, 2002 and 9.6% annualized from June 30, 2003.

Deposits at September 30, 2003 were $20.9 billion, an increase of 7.2% over the balances reported one year ago. Deposits at September 30, 2003 increased at an annualized rate of 4.8% from the balances reported at the end of the second quarter of 2003.

Net Interest Income

For the quarter, taxable-equivalent net interest income of $282.8 million increased 6.0% compared to $266.7 million for the third quarter of 2002. For the third quarter of 2003, the net interest margin was 4.39%, compared to 4.50% for the second quarter of 2003, and 4.53% for the third quarter of 2002.

Noninterest Income

For the third quarter of 2003, noninterest income was $190.2 million compared to $74.8 million for the third quarter of 2002. Excluding equity securities gains (losses) from both quarters, noninterest income for the third quarter of 2003 increased 11.3% from the third quarter of 2002.

Loan sales and servicing income included a gain on sale of $2.4 million in the third quarter of 2003 resulting from the securitization of $587 million of small business loans.

The third quarter of 2003 also included net equity securities gains of $77.4 million compared to net equity securities losses of $26.5 million for the third quarter of 2002. Equity securities gains during the third quarter of 2003 included the following:

	Pre-Tax Amount ($ millions)	Diluted EPS Impact
Gain on sale of ICAP, plc stock	$ 68.5	$ 0.47
Gain on sale of other investments	16.7	0.11
Write-downs made by venture capital funds	(7.8)	(0.04)*
Total	$ 77.4	$ 0.54

*Net of income taxes and minority interest, the results of the venture capital funds reduced net income by $3.5 million in the third quarter of 2003.

The gain on the sale of ICAP, plc was previously reported in an 8-K filed with the Securities and Exchange Commission on July 1, 2003.

Noninterest Expense

For the third quarter of 2003, noninterest expense was $245.5 million compared to $219.2 million for the third quarter of 2002. The third quarter of 2003 includes debt extinguishment cost of $24.2 million. Excluding this item, noninterest expense increased 1.0% from the third quarter of 2002.

Vectra Bank Colorado Restructuring

As previously noted, earlier this year the Company and Vectra management initiated a strategic review of Vectra Bank.

As a part of the restructuring of Vectra Bank Colorado, the Company offered 11 branches for sale during the quarter. The assets and liabilities to be sold were measured at their fair value less estimated costs to sell based on bids, letters of intent received and negotiations to date. As a result, the Company recognized an impairment loss on goodwill of $7.1 million on the branches held for sale. The loans and deposits associated with these branches at quarter end were $153.9 million and $133.0 million, respectively.

As a result of this restructuring and as previously communicated, Zions also performed a SFAS 142 impairment test on the retained operations of Vectra in the third quarter of 2003. As a result of this analysis, in which Zions was assisted by valuation consultants from KPMG LLP, Zions recognized an additional goodwill impairment charge of $68.5 million. The SFAS 142 Step 1 fair value calculation resulted in a determination of modest impairment compared to current book value adjusted to exclude assets and liabilities associated with the branches being sold. The total $68.5 million goodwill impairment included the adjustments resulting from the Step 2 measurement of the fair value of assets and liabilities.

The total goodwill impairment of $75.6 million in the quarter is the sum of the $7.1 million and $68.5 million described above.

Sale of Lexign, Inc.

During the third quarter of 2003, Zions completed the sale of its subsidiary, Lexign, Inc., incurring a pretax loss on sale of $2.4 million. However, the sale also triggered a tax capital loss that was recognizable only due to capital gains from the sale of equity investments during the quarter. This capital loss resulted in an income tax benefit of $11.9 million, included in other tax effects in the table on page 2.

Asset Quality

The ratio of nonperforming assets to total loans and other real estate was 0.56% at September 30, 2003 compared to 0.61% at June 30, 2003 and 0.72% at September 30, 2002. For the third quarter of 2003, net loan and lease losses were $18.4 million or 0.38% annualized of average loans, compared to $17.2 million or 0.36% annualized for the second quarter of 2003 and $21.3 million or 0.46% annualized for the third quarter of 2002. At $281.3 million on September 30, 2003, the allowance for loan losses was 1.45% of total loans and 342% of nonperforming loans.

Provision for Loan Losses

For the third quarter of 2003, the provision for loan losses was $18.3 million compared to $18.2 million provided during the second quarter of 2003 and $22.3 million provided during the third quarter of 2002. The provision reflects management s evaluation of its various portfolios, statistical trends and other economic factors, and its desire to maintain a strong coverage of nonperforming assets in a continued uncertain economic environment in the markets in which it operates.

Capital Management

During the third quarter of 2003, Zions repurchased 352,983 shares of common stock at an average price of $54.60 per share. Year-to-date 2003, Zions has repurchased 1,577,631 shares at an average price of $48.00 per share. As of September 30, 2003, the Company had $1.9 million remaining in its currently authorized share repurchase program. Weighted average common and common equivalent shares outstanding for the third quarter of 2003 were 90,810,743, compared to 90,586,065 for the second quarter of 2003 and 92,017,388 for the third quarter of 2002.

The Company s tangible common equity ratio increased to 6.55% at September 30, 2003, from 6.20% at June 30, 2003 and 6.09% at September 30, 2002.

Zions conducted a modified Dutch auction tender offer during the quarter in which tenders for $197.4 million of notes were received. All tendered securities qualified as Tier 2 capital.

During the quarter Zions issued $500 million of 6.00% subordinated notes due 2015. All of this debt issue qualifies as Tier 2 capital. The Company subsequently swapped this fixed rate debt for a Libor-based floating rate.

These debt issuances and redemptions had the net effect of increasing Tier 2 capital by approximately $300 million.

About Zions Bancorporation

Zions Bancorporation is one of the nation s premier financial services companies, consisting of a collection of great banks in select high growth markets. Under local management teams and community identities, Zions operates over 400 full-service banking offices in Arizona, California, Colorado, Idaho, Nevada, New Mexico, Utah and Washington. In addition, Zions is a national leader in SBA lending, public finance advisory services, agricultural finance and electronic bond trading. The Company is included in the S&P 500 Index. Investor information and links to subsidiary banks can be accessed at www.zionsbancorporation.com.

Forward-Looking Information

This news release contains statements regarding the projected performance of Zions and its subsidiaries. These statements constitute forward-looking information within the meaning of the Private Securities Litigation Reform Act. Actual results of achievements may differ materially from the projections provided in this release since such projections involve significant known and unknown risks and uncertainties. Factors that might cause such differences include, but are not limited to: competitive pressures among financial institutions increasing significantly; economic conditions, either nationally or locally, in areas in which the Company conducts operations being less favorable than expected; and legislation or regulatory changes which adversely affect the ability of the combined Company to conduct business combinations or new operations. The Company disclaims any obligation to update such factors or to publicly announce the results of any revisions to any of the forward-looking statements included herein to reflect future events or developments.

ZIONS BANCORPORATION AND SUBSIDIARIES

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FINANCIAL HIGHLIGHTS

(Unaudited)

(In thousands, except per share and ratio data)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2003	2002	% Change	2003	2002	% Change
EARNINGS						
Taxable-equivalent net interest income	$ 282,776	$ 266,660	6.04%	$ 834,550	$ 792,247	5.34%
Net interest income	277,079	261,306	6.04%	817,240	776,560	5.24%
Noninterest income	190,176	74,815	154.20%	387,342	270,246	43.33%
Provision for loan losses	18,260	22,309	(18.15)%	53,960	56,104	(3.82)%
Noninterest expense	245,506	219,158	12.02%	675,895	640,120	5.59%
Impairment loss on goodwill	75,628			75,628		
Income before income taxes and minority interest	127,861	94,654	35.08%	399,099	350,582	13.84%
Income taxes	66,511	31,772	109.34%	161,861	120,744	34.05%
Minority interest	(2,849)	(2,486)	14.60%	(6,745)	(3,211)	110.06%
Income from continuing operations	64,199	65,368	(1.79)%	243,983	233,049	4.69%
Loss on discontinued operations	(2,115)	(25,922)	91.84%	(1,770)	(31,897)	94.45%
Cumulative effect of change in accounting principle					(32,369)	100.00%
Net income	62,084	39,446	57.39%	242,213	168,783	43.51%
PER COMMON SHARE						
Net income (diluted)	0.68	0.43	58.14%	2.67	1.83	45.90%
Income from continuing operations (diluted)	0.71	0.71		2.69	2.52	6.75%
Loss on discontinued operations (diluted)	(0.03)	(0.28)	89.29%	(0.02)	(0.34)	94.12%
Dividends	0.30	0.20	50.00%	0.72	0.60	20.00%
Book value				27.66	25.86	6.96%
SELECTED RATIOS						
Return on average assets	0.86%	0.59%		1.16%	0.87%	
Return on average common equity	9.89%	6.51%		13.21%	9.68%	
Efficiency ratio	52.08%	74.23%		55.42%	64.57%	
Net interest margin	4.39%	4.53%		4.48%	4.61%	

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ZIONS BANCORPORATION AND SUBSIDIARIES

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FINANCIAL HIGHLIGHTS (Continued)

(Unaudited)

(In thousands, except share and ratio data)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2003	2002	% Change	2003	2002	% Change
AVERAGE BALANCES						
Total assets	$ 28,696,504	$ 26,429,054	8.58 %	$ 28,015,477	$ 26,081,737	7.41 %
Securities	4,644,337	3,788,158	22.60 %	4,308,192	3,922,040	9.85 %
Net loans and leases	19,577,780	18,442,768	6.15 %	19,252,293	18,024,954	6.81 %
Goodwill	729,149	772,439	(5.60)%	729,769	747,888	(2.42)%
Core deposit and other intangibles	76,457	98,032	(22.01)%	79,148	102,559	(22.83)%
Total deposits	20,425,204	18,851,300	8.35 %	20,074,737	18,252,378	9.98 %
Minority interest	20,930	22,234	(5.86)%			