ZIONS BANCORPORATION /UT/
Form 10-K
March 01, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2006

OR

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

For the transition period from _______ to _______

COMMISSION FILE NUMBER 001-12307

ZIONS BANCORPORATION

(Exact name of Registrant as specified in its charter)

UTAH	**87-0227400**
(State or other jurisdiction	**(Internal Revenue Service Employer**

of incorporation or organization)	Identification Number)
ONE SOUTH MAIN, 15TH FLOOR	
SALT LAKE CITY, UTAH	**84111**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (801) 524-4787

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Guarantee related to 8.00% Capital Securities of Zions Capital Trust B	New York Stock Exchange
6% Subordinated Notes due September 15, 2015	New York Stock Exchange
Depositary Shares each representing a 1/40th ownership interest in a share of Series A Floating-Rate Non-Cumulative Perpetual Preferred Stock	New York Stock Exchange
Common Stock, without par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by

reference in Part III of this Form 10-K or any amendment to this Form 10-K. ______

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

Aggregate Market Value of Common Stock Held by Non-affiliates at June 30, 2006	$ 7,939,764,713
Number of Common Shares Outstanding at February 16, 2007	109,997,378 shares

Documents Incorporated by Reference:

Portions of the Company s Proxy Statement (to be dated approximately March 16, 2007) for the Annual Meeting of Shareholders to be held May 4, 2007 Incorporated into Part III

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PART I

FORWARD-LOOKING INFORMATION

Statements in this Annual Report on Form 10-K that are based on other than historical data are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations or forecasts of future events and include, among others:

- statements with respect to the beliefs, plans, objectives, goals, guidelines, expectations, anticipations, and future financial condition, results of operations and performance of Zions Bancorporation and its subsidiaries (collectively the Company);
- statements preceded by, followed by or that include the words may, could, should, would, believe, anticipate, estimate, expect, projects, or similar expressions.

These forward-looking statements are not guarantees of future performance, nor should they be relied upon as representing management s views as of any subsequent date. Forward-looking statements involve significant risks and uncertainties and actual results may differ materially from those presented, either expressed or implied, in this Annual Report on Form 10-K, including, but not limited to, those presented in the Management s Discussion and Analysis. Factors that might cause such differences include, but are not limited to:

- the Company s ability to successfully execute its business plans, manage its risks, and achieve its objectives;
- changes in political and economic conditions, including the economic effects of terrorist attacks against the United States and related events;
- changes in financial market conditions, either nationally or locally in areas in which the Company conducts its operations, including without limitation, reduced rates of business formation and growth, commercial real estate development and real estate prices;
- fluctuations in the equity and fixed-income markets;
- changes in interest rates, the quality and composition of the loan and securities portfolios, demand for loan products, deposit flows and competition;
- acquisitions and integration of acquired businesses;
- increases in the levels of losses, customer bankruptcies, claims and assessments;
- changes in fiscal, monetary, regulatory, trade and tax policies and laws, including policies of the U.S. Treasury and the Federal Reserve Board;

continuing consolidation in the financial services industry;

new litigation or changes in existing litigation;

success in gaining regulatory approvals, when required;

changes in consumer spending and savings habits;

increased competitive challenges and expanding product and pricing pressures among financial institutions;

demand for financial services in the Company s market areas;

inflation and deflation;

technological changes and the Company s implementation of new technologies;

the Company s ability to develop and maintain secure and reliable information technology systems;

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legislation or regulatory changes which adversely affect the Company s operations or business;

the Company s ability to comply with applicable laws and regulations; and

changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies.

The Company specifically disclaims any obligation to update any factors or to publicly announce the result of revisions to any of the forward-looking statements included herein to reflect future events or developments.

AVAILABILITY OF INFORMATION

We also make available free of charge on our website, www.zionsbancorporation.com, annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission.

ITEM 1. BUSINESS

DESCRIPTION OF BUSINESS

Zions Bancorporation (the Parent) is a financial holding company organized under the laws of the State of Utah in 1955, and registered under the Bank Holding Company Act of 1956, as amended (the BHC Act). The Parent and its subsidiaries (collectively the Company) own and operate eight commercial banks with a total of 470 offices at year-end 2006. The Company provides a full range of banking and related services through its banking and other subsidiaries, primarily in Utah, California, Texas, Arizona, Nevada, Colorado, Idaho, Washington, and Oregon. Full-time equivalent employees totaled 10,618 at year-end 2006. For further information about the Company s industry segments, see Business Segment Results in Management s Discussion and Analysis (MD&A) and Note 22 of the Notes to Consolidated Financial Statements. For information about the Company s foreign operations, see Foreign Operations in MD&A. The Executive Summary in MD&A provides further information about the Company.

PRODUCTS AND SERVICES

The Company focuses on maintaining community-minded banking services by continuously strengthening its core business lines of 1) small, medium-sized business and corporate banking; 2) commercial and residential development, construction and term lending; 3) retail banking; 4) treasury cash management and related products and services; 5) residential mortgage; and 6) investment activities. It operates eight different banks in ten Western and Southwestern states with each bank operating under a different name and each having its own board of directors, chief executive officer, and management team. The banks provide a wide variety of commercial and retail banking and mortgage lending products and services. They also provide a wide range of personal banking services to individuals, including home mortgages, bankcard, student and other installment loans, home equity lines of credit, checking accounts, savings accounts, time certificates of various types and maturities, trust services, safe deposit facilities, direct deposit, and 24-hour ATM access. In addition, certain banking subsidiaries provide services to key market

segments through their Women s Financial, Private Client Services, and Executive Banking Groups. We also offer wealth management services through a subsidiary, Contango Capital Advisors, Inc., (Contango) that was launched in 2004.

In addition to these core businesses, the Company has built specialized lines of business in capital markets, public finance, and certain financial technologies, and is also a leader in U.S. Small Business Administration (SBA) lending. Through its eight banking subsidiaries, the Company provides SBA 7(a) loans to small businesses throughout the United States and is also one of the largest providers of SBA 504 financing in the nation. The Company owns an equity interest in the Federal Agricultural Mortgage Corporation (Farmer Mac) and is the nation s top originator of secondary market agricultural real estate mortgage loans through Farmer Mac. The Company is a leader in municipal finance advisory and underwriting services. The Company also controls four venture capital funds that provide early-stage capital primarily for start-up companies located in the Western United States. Finally, the Company s NetDeposit, Inc. (NetDeposit) and P5, Inc. (P5) subsidiaries are national leaders in the provision of check imaging and clearing software and of web-based medical claims tracking and cash management services, respectively.

COMPETITION

The Company operates in a highly competitive environment. The Company s most direct competition for loans and deposits comes from other commercial banks, thrifts, and credit unions, including institutions that do not have a physical presence in our market footprint but solicit via the Internet and other means. In addition, the Company competes with finance companies, mutual funds, brokerage firms, securities dealers, investment banking companies, financial technology firms, and a variety of other types of companies. Many of these companies have fewer regulatory constraints and some have lower cost structures.

The primary factors in competing for business include pricing, convenience of office locations and other delivery methods, range of products offered, and the level of service delivered. The Company must compete effectively along all of these parameters to remain successful.

SUPERVISION AND REGULATION

The Gramm-Leach-Bliley Act of 1999 (the GLB Act) provides a regulatory framework for financial holding companies, which have as their umbrella regulator the Federal Reserve Board (FRB). The functional regulation of the separately regulated subsidiaries of a holding company is conducted by each subsidiary s primary functional regulator. To qualify for and maintain status as a financial holding company, a company must satisfy certain ongoing criteria.

The GLB Act also provides federal regulations dealing with privacy for nonpublic personal information of individual customers, with which the Company must comply. In addition, the Company is subject to various other federal and state laws that deal with the use and disclosure of nonpublic personal information.

The Parent is a financial holding company and, as such, is subject to the BHC Act. The BHC Act requires the prior approval of the FRB for a financial holding company to acquire or hold more than 5% voting interest in any bank. The BHC Act allows, subject to certain limitations, interstate bank acquisitions and interstate branching by acquisition anywhere in the country.

The BHC Act restricts the Company s nonbanking activities to those that are permitted for financial holding companies or that have been determined by the FRB to be financial in nature, incidental to financial activities, or complementary to a financial activity. The BHC Act does not place territorial restrictions on the activities of nonbank subsidiaries of financial holding companies.

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The Company s banking subsidiaries are also subject to various requirements and restrictions contained in both the laws of the United States and the states in which the banks operate. These include restrictions on:

- transactions with affiliates;
- the amount of loans to a borrower and its affiliates;
- the nature and amount of any investments;
- their ability to act as an underwriter of securities;
- the opening of branches; and
- the acquisition of other financial entities.

In addition, the Company s subsidiary banks are subject to the provisions of the National Bank Act or the banking laws of their respective states, as well as the rules and regulations of the Office of the Comptroller of the Currency (OCC), the FRB, and the Federal Deposit Insurance Corporation (FDIC). They are also under the supervision of, and are subject to periodic examination by, the OCC or their respective state banking departments, the FRB, and the FDIC.

The FRB has established capital guidelines for financial holding companies. The OCC, the FDIC, and the FRB have also issued regulations establishing capital requirements for banks. Failure to meet capital requirements could subject the Company and its subsidiary banks to a variety of restrictions and enforcement remedies. See Note 19 of the Notes to Consolidated Financial Statements for information regarding capital requirements.

The U.S. federal bank regulatory agencies risk-based capital guidelines are based upon the 1988 capital accord (Basel I) of the Basel Committee on Banking Supervision (the BCBS). The BCBS is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines that each country s supervisors can use to determine the supervisory policies they apply. The BCBS has been working for a number of years on revisions to Basel I and in June 2004 released the final version of its proposed new capital framework with an update in November 2005 (Basel II). Basel II provides two approaches for setting capital standards for credit risk an internal ratings-based approach tailored to individual institutions circumstances (which for many asset classes is itself broken into a foundation approach and an advanced or A-IRB approach, the availability of which is subject to additional restrictions) and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing risk-based capital guidelines. Basel II also would set capital requirements for operational risk and refine the existing capital requirements for market risk exposures. However, U.S. regulatory authorities consistently have taken the position that U.S. banks would not be permitted to utilize the foundation approach. Operational risk is defined by the proposal to mean the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events. Basel I does not include separate capital requirements for operational risk.

In September 2006, the U.S. banking and thrift agencies issued an interagency Advance Notice of Proposed Rulemaking (NPR) setting forth a definitive proposal for implementing Basel II in the United States that would apply only to internationally active banking organizations defined as those with consolidated total assets of $250 billion or more or consolidated on-balance sheet

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foreign exposures of $10 billion or more but that other U.S. banking organizations could elect, but would not be required to apply. We do not currently expect to be an early opt in bank holding company, as the Company does not have in place the data collection and analytical capabilities necessary to adopt Basel II. However, we believe that the competitive advantages afforded to companies that do adopt the framework will make it necessary for the Company to elect to opt in at some point, and we have begun investing in the required capabilities.

Also, in December 2006, the agencies issued another NPR for modifications to the Basel I framework for those banks not adopting Basel II, called Basel IA. The Basel IA NPR will allow non-Basel II banking organizations the choice of adopting all of the revisions suggested in the proposed NPR or continuing the use of existing risk-based capital rules. The agencies have indicated their intent to have the A-IRB provisions for internationally active U.S. banking organizations first become effective in March 2009 and that those provisions and the Basel IA provisions for others will be implemented on similar time frames.

Dividends payable by the subsidiary banks to the Parent are subject to various legal and regulatory restrictions. These restrictions and the amount available for the payment of dividends at year-end are summarized in Note 19 of the Notes to Consolidated Financial Statements.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 provides that the Company s bank subsidiaries are liable for any loss incurred by the FDIC in connection with the failure of an affiliated insured bank.

The Federal Deposit Insurance Corporation Improvement Act of 1991 prescribes standards for the safety and soundness of insured banks. These standards relate to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, as well as other operational and management standards deemed appropriate by the federal banking regulatory agencies.

The Community Reinvestment Act (CRA) requires banks to help serve the credit needs in their communities, including credit to low and moderate income individuals. Should the Company or its subsidiaries fail to adequately serve their communities, penalties may be imposed including denials of applications to add branches, relocate, add subsidiaries and affiliates, and merge with or purchase other financial institutions. The GLB Act requires satisfactory or higher CRA compliance for insured depository institutions and their financial holding companies for them to engage in new financial activities. If one of the Company s banks should receive a CRA rating of less than satisfactory, the Company could lose its status as a financial holding company.

On October 26, 2001, the President signed into law comprehensive anti-terrorism legislation known as the USA PATRIOT Act of 2001 (the USA Patriot Act). Title III of the USA Patriot Act substantially broadens the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, defining new crimes and related penalties, and expanding the extra-territorial jurisdiction of the United States. The U.S. Treasury Department has issued a number of implementing regulations, which apply various requirements of the USA Patriot Act to financial institutions. The Company s bank and broker-dealer subsidiaries and mutual funds and private investment companies advised or sponsored by the Company s subsidiaries must comply with these regulations. These regulations also impose new obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing.

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The Company has adopted appropriate policies, procedures and controls to address compliance with the requirements of these acts and will continue to make appropriate revisions to reflect any changes required.

Regulators, Congress, and state legislatures continue to enact rules, laws, and policies to regulate the financial services industry and to protect consumers. The nature of these laws and regulations and the effect of such policies on future business and earnings of the Company cannot be predicted.

On July 30, 2002, the Senate and the House of Representatives of the United States (Congress) enacted the Sarbanes-Oxley Act of 2002, a law that addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. The Nasdaq has also adopted corporate governance rules, which are intended to allow shareholders and investors to more easily and efficiently monitor the performance of companies and their directors.

The Board of Directors of the Parent has implemented a system of strong corporate governance practices. This system includes Corporate Governance Guidelines, a Code of Business Conduct and Ethics for Employees, a Directors Code of Conduct, and charters for the Audit, Credit Review, Executive Compensation, and Nominating and Corporate Governance Committees. More information on the Company s corporate governance practices is available on the Company s website at www.zionsbancorporation.com. (The Company s website is not part of this Annual Report on Form 10-K.)

GOVERNMENT MONETARY POLICIES

The earnings and business of the Company are affected not only by general economic conditions, but also by fiscal and other policies adopted by various governmental authorities. The Company is particularly affected by the monetary policies of the FRB, which affect short-term interest rates and the national supply of bank credit. The methods of monetary policy available to the FRB include:

- open-market operations in U.S. government securities;
- adjustment of the discount rates or cost of bank borrowings from the FRB; and
- imposing or changing reserve requirements against bank deposits.

These methods are used in varying combinations to influence the overall growth or contraction of bank loans, investments and deposits, and the interest rates charged on loans or paid for deposits.

In view of the changing conditions in the economy and the effect of the FRB s monetary policies, it is difficult to predict future changes in loan demand, deposit levels and interest rates, or their effect on the business and earnings of the Company. FRB monetary policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

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ITEM 1A. RISK FACTORS

The following list describes several risk factors which are significant to the Company:

Credit risk is one of our most significant risks. Over the last three years we have experienced historically high levels of credit quality. We do not see any indications that credit quality will deteriorate significantly, but it is unlikely that we will be able to maintain credit quality at these levels indefinitely. Economic conditions in the high growth geographical areas in which our banks operate have been strong, but events could result in weaker economic conditions including deterioration of property values that could significantly increase the Company s credit risk.

Net interest income is the largest component of the Company s revenue. The management of interest rate risk for the Company and all bank subsidiaries is centralized and overseen by an Asset Liability Management Committee appointed by the Company s Board of Directors. The Company has been successful in its interest rate risk management as evidenced by its achieving a relatively stable interest rate margin over the last several years when interest rates have been volatile and the rate environment challenging. Factors beyond the Company s control can significantly influence the interest rate environment and increase the Company s risk. These factors include competitive pricing pressures for our loans and deposits and volatile market interest rates subject to general economic conditions and the polices of governmental and regulatory agencies, in particular the FRB.

The Company is exposed to accounting, financial reporting, and regulatory/compliance risk. The Company provides to its customers a number of complex financial products and services. Estimates, judgments and interpretations of complex and changing accounting and regulatory policies are required in order to provide and account for these products and services. Identification, interpretation and implementation of complex and changing accounting standards as well as compliance with regulatory requirements therefore pose an ongoing risk.

A failure in our internal controls could have a significant negative impact not only on our earnings, but also on the perception that customers, regulators and investors may have of the Company. We continue to devote a significant amount of effort, time and resources to improving our controls and ensuring compliance with complex accounting standards and regulations.

We have a number of business initiatives that, while we believe they will ultimately produce profits for our shareholders, currently generate expenses in excess of revenues. Two significant initiatives are Contango, a wealth management business started in 2004, and NetDeposit, a subsidiary that provides electronic check processing systems. Our management of these businesses takes into account the development of revenues and control of expenses so that results of operations are not adverse to an extent that is not warranted by the expected opportunities these businesses provide.

As noted previously, U.S. and international regulators have proposed new capital standards commonly known as Basel II. These standards would apply to a number of our largest competitors and potentially give them a significant competitive advantage over

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banks that do not adopt these standards. Sophisticated systems and data are required to adopt Basel II standards; the Company does not yet have these systems and data. While the Company is developing some of the systems, data, and analytical capabilities required to adopt Basel II, adoption is difficult and the Company has not yet decided that it will or can adopt Basel II. More recently, U.S. banking regulators issued another NPR which might reduce competitive inequities for modifications to the Basel I framework for those banks not adopting Basel II, called Basel IA. The Basel IA NPR will allow non-Basel II banking organizations the choice of adopting all of the revisions suggested in the proposed NPR or continuing the use of existing risk-based capital rules. However, our initial analysis indicates that a significant risk of competitive inequity would persist between banks operating under Basel IA and those using Basel II by potentially allowing Basel II banks to operate with lower levels of capital for certain lines of business.

From time to time the Company makes acquisitions. The success of any acquisition depends, in part, on our ability to realize the projected cost savings from the merger and on the continued growth and profitability of the acquisition target. We have been successful with most prior mergers, but it is possible that the merger and integration process with an acquisition target could result in the loss of key employees, disruptions in controls, procedures and policies, or other factors that could affect our ability to realize the projected savings and successfully retain and grow the target s customer base.

The Company s Board of Directors has established an Enterprise-Wide Risk Management policy and appointed an Enterprise Risk Management Committee to oversee and implement the policy. In addition to credit and interest rate risk, the Committee also oversees and monitors the following risk areas: market risk, liquidity risk, operational risk, information technology risk, strategic risk, and reputation risk.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

At year-end 2006, the Company operated 470 domestic branches, of which 225 are owned and 245 are on leased premises. The Company also leases its headquarter offices in Salt Lake City, Utah. Other operations facilities are either owned or leased. The annual rentals under long-term leases for leased premises are determined under various formulas and factors, including operating costs, maintenance, and taxes. For additional information regarding leases and rental payments, see Note 18 of the Notes to Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

The information contained in Note 18 of the Notes to Consolidated Financial Statements is incorporated by reference herein.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

The Company s common stock is traded on the Nasdaq Global Select Market under the symbol ZION. The last reported sale price of the common stock on Nasdaq on February 16, 2007 was $87.56 per share.

The following table sets forth, for the periods indicated, the high and low sale prices of the Company s common stock, as quoted on Nasdaq:

	2006		2005	
	High	**Low**	**High**	**Low**
1st Quarter	$ 85.25	75.13	70.45	63.33
2nd Quarter	84.18	76.28	75.17	66.25
3rd Quarter	84.09	75.25	74.00	68.45
4th Quarter	83.15	77.37	77.67	66.67

As of February 16, 2007, there were 6,982 holders of record of the Company s common stock.

DIVIDENDS

The frequency and amount of common stock dividends paid during the last two years are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2006	$ 0.36	0.36	0.36	0.39
2005	0.36	0.36	0.36	0.36

On January 26, 2007, the Company s Board of Directors approved a dividend of $0.39 per common share payable on February 21, 2007 to shareholders of record on February 7, 2007. The Company expects to continue its policy of paying regular cash dividends on a quarterly basis, although there is no assurance as to future dividends because they depend on future earnings, capital requirements, and financial condition.

On December 7, 2006, we issued 240,000 shares of our Series A Floating-Rate Non-Cumulative Perpetual Preferred Stock with an aggregate liquidation preference of $240 million, or $1,000 per share. The preferred stock was offered in the form of 9,600,000 depositary shares with each depositary share representing a 1/40th ownership interest in a share of the preferred stock. In general, preferred shareholders are entitled to receive asset distributions before common shareholders; however, preferred shareholders have no preemptive or conversion rights, and only limited voting rights pertaining generally to amendments to the terms of the preferred stock or the issuance of senior preferred stock as well as the right to elect two directors in the event of certain defaults. The preferred stock is not redeemable prior to December 15, 2011, but will be redeemable subsequent to that date at the Company s option at the liquidation preference value plus any declared but unpaid dividends. The preferred stock dividend reduces earnings available

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to common shareholders and is computed at an annual rate equal to the greater of three-month LIBOR plus 0.52%, or 4.0%. Dividend payments are made quarterly in arrears on the 15th day of March, June, September, and December, commencing on March 15, 2007.

Under the terms of the preferred stock agreements, in December 2006 the Company was required to declare the full quarterly dividend of $3.8 million and set aside the funds before it could resume the repurchase of its common shares.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The information contained in Item 12 of this Form 10-K is incorporated by reference herein.

SHARE REPURCHASES

The following table summarizes the Company s share repurchases for the fourth quarter of 2006:

Period	Total number of shares repurchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plan (2)
October	1,057	$ 80.68		$ 59,253,657
November	365	79.27		59,253,657
December	311,987	81.06	308,359	375,006,404
Fourth quarter	313,409	81.05	308,359	

(1) Includes 4,435 shares tendered for exercise of stock options and 615 shares to cover payroll taxes on the vesting of restricted stock.
(2) On December 11, 2006, the Company s Board of Directors authorized the repurchase of up to $400 million of its common stock and the Company thus resumed the repurchase of its common stock. Prior to December, the Company had suspended the repurchase of its shares since July 2005 in conjunction with the acquisition of Amegy Bancorporation, Inc.

PERFORMANCE GRAPH

The following stock performance graph compares the five-year cumulative total return of Zions Bancorporation s common stock with the Standard & Poor s 500 Index and the KBW50 Index. The KBW50 Index is a market-capitalization weighted bank stock index developed and published by Keefe, Bruyette & Woods, Inc., a national recognized brokerage and investment banking firm specializing in bank stocks. The index is composed of 50 of the nation s largest banking companies. The stock performance graph is based upon an initial investment of $100 on December 31, 2001 and assumes reinvestment of dividends.

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ITEM 6. SELECTED FINANCIAL DATA

FINANCIAL HIGHLIGHTS

(In millions, except per share amounts)	2006/2005 CHANGE	2006	2005 (3)	2004	2003	2002
FOR THE YEAR						
Net interest income	+30%	$ 1,764.7	1,361.4	1,160.8	1,084.9	1,025.7
Noninterest income	+26%	551.2	436.9	431.5	500.7	386.2
Total revenue	+29%	2,315.9	1,798.3	1,592.3	1,585.6	1,411.9
Provision for loan losses	+69%	72.6	43.0	44.1	69.9	71.9
Noninterest expense	+31%	1,330.4	1,012.8	923.2	893.9	858.9
Impairment loss on goodwill	-100%		0.6	0.6	75.6	
Income from continuing operations before income taxes and minority interest	+23%	912.9	741.9	624.4	546.2	481.1
Income taxes	+21%	318.0	263.4	220.1	213.8	167.7
Minority interest	+817%	11.8	(1.6)	(1.7)	(7.2)	(3.7)
Income from continuing operations	+21%	583.1	480.1	406.0	339.6	317.1
Loss on discontinued operations					(1.8)	(28.4)
Cumulative effect adjustment						(32.4)
Net income	+21%	583.1	480.1	406.0	337.8	256.3
Net earnings applicable to common shareholders	+21%	579.3	480.1	406.0	337.8	256.3
PER COMMON SHARE						
Earnings from continuing operations diluted	+4%	5.36	5.16	4.47	3.74	3.44
Net earnings diluted	+4%	5.36	5.16	4.47	3.72	2.78
Net earnings basic	+4%	5.46	5.27	4.53	3.75	2.80
Dividends declared	+2%	1.47	1.44	1.26	1.02	0.80
Book value (1)	+10%	44.48	40.30	31.06	28.27	26.17
Market price end		82.44	75.56	68.03	61.34	39.35
Market price high		85.25	77.67	69.29	63.86	59.65
Market price low		75.13	63.33	54.08	39.31	34.14
AT YEAR-END						
Assets	+10%	46,970	42,780	31,470	28,558	26,566
Net loans and leases	+15%	34,668	30,127	22,627	19,920	19,040
Loans sold being serviced (2)	-24%	2,586	3,383	3,066	2,782	2,476
Deposits	+7%	34,982	32,642	23,292	20,897	20,132
Long-term borrowings	-9%	2,495	2,746	1,919	1,843	1,310
Shareholders equity	+18%	4,987	4,237	2,790	2,540	2,374
PERFORMANCE RATIOS						
Return on average assets		1.32%	1.43%	1.31%	1.20%	0.97%
Return on average common equity		12.89%	15.86%	15.27%	13.69%	10.95%
Efficiency ratio		56.85%	55.67%	57.22%	55.65%	63.40%
Net interest margin		4.63%	4.58%	4.27%	4.41%	4.52%
CAPITAL RATIOS (1)						
Equity to assets		10.62%	9.90%	8.87%	8.89%	8.94%

Tier 1 leverage	7.86%	8.16%	8.31%	8.06%	7.56%
Tier 1 risk-based capital	7.98%	7.52%	9.35%	9.42%	9.26%
Total risk-based capital	12.29%	12.23%	14.05%	13.52%	12.94%
SELECTED INFORMATION					
Average common and common-equivalent shares (in thousands)	108,028	92,994	90,882	90,734	92,079
Common dividend payout ratio	27.10%	27.14%	28.23%	27.20%	28.58%
Full-time equivalent employees	10,618	10,102	8,026	7,896	8,073
Commercial banking offices	470	473	386	412	415
ATMs	578	600	475	553	588

(1) At year-end.

(2) Amount represents the outstanding balance of loans sold and being serviced by the Company, excluding conforming first mortgage residential real estate loans.

(3) Amounts for 2005 include Amegy Corporation at December 31, 2005 and for the month of December 2005. Amegy was acquired on December 3, 2005.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MANAGEMENT S DISCUSSION AND ANALYSIS

EXECUTIVE SUMMARY

Company Overview

Zions Bancorporation (the Parent) and subsidiaries (collectively the Company, Zions, we, our, us) together comprise a $47 billion financi holding company headquartered in Salt Lake City, Utah. The Company is the twenty-second largest domestic bank in terms of deposits, operating banking businesses through 470 offices and 578 ATMs in ten Western and Southwestern states: Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, and Washington. Our banking businesses include: Zions First National Bank (Zions Bank), in Utah and Idaho; California Bank & Trust (CB&T); Amegy Corporation (Amegy) and its subsidiary, Amegy Bank, in Texas; National Bank of Arizona (NBA); Nevada State Bank (NSB); Vectra Bank Colorado (Vectra), in Colorado and New Mexico; The Commerce Bank of Washington (TCBW); and The Commerce Bank of Oregon (TCBO).

The Company also operates a number of specialty financial services and financial technology businesses that conduct business on a regional or national scale. The Company is a national leader in Small Business Administration (SBA) lending, public finance advisory services, and software sales and cash management services related to Check 21 Act electronic imaging and clearing of checks. In addition, Zions is included in the S&P 500 and NASDAQ Financial 100 indices.

In operating its banking businesses, the Company seeks to combine the advantages that it believes can result from decentralized organization and branding, with those that can come from centralized risk management, capital management and operations. In its specialty financial services and technology businesses, the Company seeks to develop a competitive advantage in a particular product, customer, or technology niche.

Banking Businesses

As shown in Charts 1 and 2 the Company s loans and core deposits are widely diversified among the banking franchises the Company operates.

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We believe that the Company distinguishes itself by having a strategy for growth in its banking businesses that is unique for a bank holding company of its size. This growth strategy is driven by three key factors: (1) focus on high growth markets; (2) keep decisions about customers local; and (3) centralize technology and operations to achieve economies of scale.

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Focus on High Growth Markets

Each of the states in which the Company conducts its banking businesses has experienced relatively high levels of historical economic growth and each ranks among the top one-third of the fastest growing states as projected by the U.S. Census Bureau. In addition, in the recent past these states have experienced relatively high levels of population growth compared to the rest of the country.

SCHEDULE 1

DEMOGRAPHIC PROFILE

BY STATE

(Dollar amounts in thousands)	Number of branches 12/31/2006	Deposits in market at 12/31/2006 (1)	Percent of Zions deposit base	Estimated 2006 total population (2)	Estimated population % change 2000-2006 (2)	Projected population % change 2006-2011 (2)	Estimated median household income 2006 (2)	Estimated household income % change 2000-2006 (2)	Projected household income % change 2006-2011 (2)
Utah	112	$ 9,531,472	27.25%	2,551,534	14.26%	12.43%	$ 56.4	23.38%	18.39%
California	91	8,351,369	23.87	37,236,136	9.93	8.00	57.8	21.32	16.95
Texas	77	7,329,258	20.95	23,786,899	14.08	10.96	49.3	23.35	17.56
Arizona	53	3,675,458	10.51	6,135,872	19.59	16.09	51.3	26.44	21.27
Nevada	72	3,378,945	9.66	2,575,444	28.88	22.95	55.1	23.42	18.06
Colorado	38	1,665,988	4.76	4,821,136	12.09	9.08	58.5	23.82	18.03
Idaho	24	519,211	1.48	1,475,700	14.05	11.75	46.6	23.59	17.88
Washington	1	504,918	1.44	6,396,653	8.53	6.36	56.5	23.38	18.35
New Mexico	1	16,385	0.05	1,956,417	7.55	6.07	41.5	21.56	16.62
Oregon	1	8,742	0.03	3,694,335	7.98	6.28	50.1	22.23	17.56
Zions weighted average					15.12	12.33	54.7	23.28	18.21
Aggregate national				303,582,361	7.87	6.66	51.5	22.25	17.77

(1) Excludes intercompany deposits.
(2) Data Source: SNL Financial Database

The Company seeks to grow both organically and through acquisitions in these banking markets. In 2005 we acquired Amegy Bank in Texas, which continued to enjoy very strong organic growth through 2006. In September 2006, we announced the pending acquisition of The Stockmen s Bancorp, Inc. (Stockmen s), a bank holding company with $1.2 billion in assets headquartered in Kingman, Arizona. On January 17, 2007, this acquisition was completed and Stockmen s banking subsidiary, The Stockmen s Bank, was merged into our NBA affiliate bank.

Within each of the states that the Company operates, we focus on the market segments that we believe present the best opportunities for us. We believe that these states have experienced higher rates of growth, business formation, and expansion than other states. We also believe that these states will continue to experience higher rates of commercial real estate development as local businesses strive to provide housing, shopping, business facilities, and other amenities for their growing populations. As a result, a common focus of all of Zions subsidiary banks is small and middle market business banking (including the personal banking needs of the executives and employees of those businesses) and commercial

real estate development. In many cases, the Company s relationship with its customers is primarily driven by the goal to satisfy their needs for credit to finance their expanding business opportunities. In addition to our commercial business, we also provide a broad base of consumer financial products in selected markets, including home mortgages, home equity lines, auto loans, and credit cards. This mix of business often leads to loan balances growing faster than internally generated deposits. In addition, it has important implications for the Company s management of certain risks, including interest rate and liquidity risks, which are discussed further in later sections of this document.

Keep Decisions About Customers Local

The Company operates eight different community/regional banks, each under a different name, each with its own charter, and each with its own chief executive officer and management team. This structure helps to ensure that decisions related to customers are made at a local level. In addition, each bank controls, among other things, all decisions related to its branding, market strategies, customer relationships, product pricing, and credit decisions (within the limits of established corporate policy). In this way we are able to differentiate our banks from much larger, mass market banking competitors that operate regional or national franchises under a common brand and often around vertical product silos. We believe that this approach allows us to attract and retain exceptional management, and that it also results in providing service of the highest quality to our targeted customers. In addition, we believe that over time this strategy generates superior growth in our banking businesses.

Centralize Technology and Operations to Achieve Economies of Scale

We seek to differentiate the Company from smaller banks in two ways. First, we use the combined scale of all of the banking operations to create a broad product offering without the fragmentation of systems and operations that would typically drive up costs. Second, for certain products for which economies of scale are believed to be important, the Company manufactures the product centrally, or outsources it from a third party. Examples include cash management, credit card administration, mortgage servicing and deposit operations. In this way the Company seeks to create and maintain efficiencies while generating superior growth.

Specialty Financial Services and Technology Businesses

In addition to its community and regional banking businesses, the Company operates a number of specialized businesses that in many cases are national in scope. These include a number of businesses in which the Company believes it ranks in the top ten institutions nationally such as SBA 7(a) loan originations, SBA 504 lending, public finance advisory and underwriting services, software and cash management services related to the electronic imaging of checks pursuant to the Check 21 Act, and the origination of farm mortgages sold to Farmer Mac.

High growth market opportunities are not always geographically defined. The Company continues to invest in several expanded or new initiatives that we believe present unusual opportunities for us, including the following:

National Real Estate Lending

This business consists of making SBA 504 and similar low loan-to-value, primarily owner-occupied, first mortgage small business commercial loans. During both 2006 and 2005, the Company originated directly and purchased from correspondents approximately $1.2 billion of these loans. During 2005 we securitized $707 million of these loans; no securitization was completed during 2006. A qualifying special-purpose entity (QSPE), Lockhart Funding, LLC (Lockhart), purchases the resultant securities after credit enhancement and funds them through the issuance of commercial paper.

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NetDeposit and Related Services

NetDeposit, Inc. (NetDeposit) is a subsidiary of the Parent that was created to develop and sell software and processes that facilitate electronic check clearing. With the implementation of the Check 21 Act late in 2004, this company and its products are well positioned to take advantage of the revolution in check processing now underway in America. During 2006, NetDeposit reduced earnings by $0.07 per diluted share, compared to $0.08 per share in 2005. Revenues for 2006 increased almost 90% from 2005 and we have continued to increase our investment in this business.

The Company generates revenues in several ways from this business. First, NetDeposit licenses software, sells consulting services, and resells scanners to other banks and processors. Newly announced customers since January 1, 2006 include BOK Financial Corporation, Deutsche Bank, First National Bank of Arizona, and National City Bank. These activities initially generate revenue from scanner sales, consulting, and licensing fees. Deployment-related fees related to work station site licenses and check processing follow, but have been slower to increase than expected as deployment throughout the industry has been slower than expected.

Second, NetDeposit has licensed its software to the Company s banks, which use the capabilities of the software to provide state-of-the art cash management services to business customers and to correspondent banks. At year-end, over 4,500 Zions affiliate bank cash management customers were using NetDeposit, and we processed over $8.5 billion of imaged checks from our cash management customers in the month of December.

Third, Zions Bank uses NetDeposit software to provide check-clearing services to correspondent banks. Zions Bank has contracts and co-marketing agreements with a number of bank processors and resellers, both domestically and abroad.

NetDeposit seeks to protect its intellectual property in business methods related to the electronic processing and clearing of checks. It has applied for several patents and was recently notified by the United States Patent and Trademark Office that it has been granted two patents.

Treasury Management

With the acquisition of Amegy Bank, Zions cash, or treasury, management capabilities were significantly enhanced. Zions believes that it has a significant opportunity to increase its treasury management penetration of commercial customers in its geographic territory, and increased its investment in these capabilities in 2006. An increased level of investment in treasury management, both in technology and service and in sales, is expected to continue in 2007.

In addition to enhancing its general treasury management capabilities, Zions has made significant investments specifically in creating enhanced capabilities in services related to claims processing and reconciliation for medical providers. Included among these investments was the acquisition of the remaining minority interests in P5, Inc. (P5); Zions had for several years owned a majority interest in this start-up provider of web-based claims reconciliation services. At year-end 2006, P5 provided these services to over 800 medical practitioners, mostly pharmacy outlets. The Company is in the process of integrating P5 s services and other payment processing services into its more traditional treasury management products and services for the medical provider industry.

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Wealth Management

We have extensive relationships with small and middle-market businesses and business owners that we believe present an unusual opportunity to offer wealth management services. As a result, the Company established a wealth management business, Contango Capital Advisors, Inc. (Contango), and launched the business in the latter half of 2004. The business offers financial and tax planning, trust and inheritance services, over-the-counter, exchange-traded and synthetic derivative and hedging strategies, quantitative asset allocation and risk management and a global array of investment strategies from equities and bonds through alternative and private equity investments. At year-end Contango had over $885 million of client assets under management and a strong pipeline of referrals from our affiliate banks as compared to over $170 million at December 31, 2005. At December 31, 2006, the Company had total discretionary assets under management of $2.1 billion, including assets managed by Contango, Amegy, and Western National Trust Company, a wholly owned subsidiary of Zions Bank. During 2006, Contango generated net losses of $0.07 per diluted share, unchanged from 2005. We expect that net losses will decline in 2007 and that the business will approach break-even late in 2007 or in 2008.

Employee Stock Option Appreciation Rights

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. We have developed a market-based method for the valuation of employee stock options for SFAS 123R purposes. This method uses an online auction to price a tracking instrument that measures the fair value of the option grant. On January 25, 2007, we received notice from the Office of the Chief Accountant of the Securities and Exchange Commission (SEC) that they concur with our view that our tracking instrument, with modifications described in the notification, is sufficiently designed to be used for SFAS 123R. Zions did not use this method to value its 2006 grant; however we intend to use the method to value our 2007 option grant. We also intend to market this method as a service to other SEC registrants.

MANAGEMENT S OVERVIEW OF 2006 PERFORMANCE

The Company s primary or core business consists of providing community and regional banking services to both individuals and businesses in ten Western and Southwestern states. We believe that this core banking business performed well during 2006. The Company experienced strong organic loan growth of over 15%, continued to experience excellent credit quality, and maintained a high and stable net interest margin in a difficult rate environment.

On December 3, 2005 we completed our acquisition of Amegy Bancorporation, Inc. The merger was accounted for under the purchase method of accounting and, accordingly, results of operations for 2005 include the results of Amegy only for the month of December. All comparisons to 2005 and prior periods reflect the impact of the acquisition. In May 2006 the conversion of Amegy s major systems to the Zions technology and operations platform was completed.

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In September 2006 the Company announced the acquisition of The Stockmen s Bancorp, Inc. headquartered in Kingman, Arizona. This acquisition was completed on January 17, 2007; consequently 2006 results were not impacted by the acquisition of Stockmen s, but the acquisition will increase loans, deposits, revenue and expenses in 2007. As previously announced, the Company expects this acquisition to be about $0.03 dilutive to earnings per share in 2007, excluding merger related costs.

The Company reported record earnings for 2006 of $579.3 million or $5.36 per diluted common share. This compares with $480.1 million or $5.16 per diluted share for 2005 and $406.0 million or $4.47 per share for 2004. Return on average common equity was 12.89% and return on average assets was 1.32% in 2006, compared with 15.86% and 1.43% in 2005 and 15.27% and 1.31% in 2004.

The key drivers of the Company s performance during 2006 were as follows:

SCHEDULE 2

KEY DRIVERS OF PERFORMANCE

2006 COMPARED TO 2005

Driver	**2006**	**2005**	**Change**
	(in billions)		
Average net loans and leases	$ 32.4	24.0	35%
Average total noninterest-bearing deposits	9.5	7.4	28%
Average total deposits	32.8	24.9	32%
	(in millions)		
Net interest income	$ 1,764.7	1,361.4	30%
Provision for loan losses	72.6	43.0	69%
Net interest margin	4.63%	4.58%	5bp
Nonperforming assets as a percentage of net loans and leases and other real estate owned	0.24%	0.30%	(6)bp
Efficiency ratio	56.85%	55.67%	118bp

As illustrated by the previous schedule, the Company s earnings growth in 2006 compared to 2005 reflected the following:

- The acquisition of Amegy, which closed in December 2005, and resulted in significant increases in most balance sheet and income statement line items, and improvement in Amegys pre-acquisition efficiency ratio;
- Strong organic loan growth;
- Lagging organic deposit growth, resulting in a greater dependence on market rate funds;
- A stable net interest margin in a difficult interest rate environment, and pricing pressure on both loans and funding costs;
- An increased provision for loan losses mainly attributable to strong loan growth, but a continued high level of credit quality; and

A higher ratio of expenses to revenue (efficiency ratio), which increased as a result of the Amegy acquisition, but declined through the year as integration efficiencies were attained.

We believe that the performance the Company experienced in 2006 was a direct result of our focusing on five primary objectives: 1) organic loan and deposit growth, 2) maintaining credit quality at high levels, 3) managing interest rate risk, 4) completing the conversion of Amegy onto Zions systems, and 5) controlling expenses.

Organic Loan and Deposit Growth

Since 2002, the Company has experienced steady and strong loan growth and moderate deposit growth, augmented in 2005 and 2006 by the Amegy acquisition. We consider this performance to be a direct result of steadily improving economic conditions throughout most of our geographical footprint, and of effectively executing our operating strategies. Chart 3 depicts this growth.

The Company experienced strong loan growth in all of its markets early in 2006, however, declining rates of residential housing development and construction in the West resulted in significantly slower rates of loan growth in its CB&T, NBA, and NSB subsidiaries in the latter half of the year. In fact, total loans outstanding in CB&T and NSB actually declined in the fourth quarter compared to the third quarter of 2006. The Company expects that the slower rate of residential development and construction lending will continue to result in much slower or no net loan growth in CB&T, NBA, and NSB in at least the first half of 2007. However, commercial lending strengthened during 2006 particularly in Zions Bank and Amegy, but also in our Vectra and TCBW bank subsidiaries, and remained very strong in the latter half of the year. The result was net loan growth of $4.5 billion, or 15.1%, from year-end 2006 compared to year-end 2005, and a mix shift away from commercial real estate and towards commercial lending sectors in new loan originations.

Reflecting trends throughout the banking industry, the Company s deposit growth in 2006 slowed significantly. Core deposits grew only $552 million from year-end 2005, a rate of 1.8% significantly lagging the growth rate of loans. In addition, noninterest-bearing

demand deposits only increased by $56 million from year-end 2005. Thus, the Company increased its reliance on more costly sources of funding during the year.

Maintaining Credit Quality at High Levels

The ratio of nonperforming assets to net loans and other real estate owned improved to 0.24% at year-end, compared to 0.30% at the end of 2005. Net loan charge-offs for 2006 were $46 million, compared to $25 million for 2005. The provision for loan losses during 2006 significantly increased relative to 2005, driven in significant part by strong loan growth and the Amegy acquisition. The Company believes that it is unlikely that credit quality will improve further from these year-end levels; however, it also sees little sign of significant deterioration in credit quality.

Note: Peer group is defined as bank holding companies with assets > $10 billion.

Peer data source: SNL Financial Database

Peer information for 2006 is from 3rd quarter 2006.

Managing Interest Rate Risk

Our focus in managing interest rate risk is not to take positions based upon management s forecasts of interest rates, but rather to maintain a position of slight asset-sensitivity. This means that our assets tend to reprice slightly more quickly than our liabilities. The Company makes extensive use of interest rate swaps to hedge interest rate risk in order to seek to achieve this desired position. This practice has enabled us to achieve a relatively stable net interest margin during periods of volatile interest rates, which is depicted in Chart 5.

Taxable-equivalent net interest income in 2006 increased 29.4% over 2005. Excluding Amegy from 2006 and December 2005, taxable-equivalent net interest income increased 9.1%. The net interest margin increased to 4.63% for 2006, up from 4.58% for 2005. The Company was able to achieve this performance despite the challenges of a flat-to-inverted yield curve, and significant pressures on both loan pricing and funding costs that resulted in fairly steady compression of the net interest spread (the difference between the average yield on all interest-earning assets and the average cost of all interest-bearing funding sources).

See the section Interest Rate Risk on page 87 for more information regarding the Company s asset-liability management (ALM) philosophy and practice and our interest rate risk management.

Controlling Expenses

During 2006 the Company s efficiency ratio increased to 56.9% compared to 55.7% for 2005. The efficiency ratio is the relationship between noninterest expense and total taxable-equivalent revenue. The efficiency ratio deteriorated following the close of the Amegy acquisition, both due to Amegy s higher pre-merger efficiency ratio relative to Zions and due to acquisition and integration related costs. However, after peaking in the first quarter, the efficiency ratio improved as cost synergies were realized.

Note: Peer group is defined as bank holding companies with assets > $10 billion.

Peer data source: SNL Financial Database

Peer information for 2006 is from 3rd quarter 2006.

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Capital and Return on Capital

As regulated financial institutions, the Parent and its subsidiary banks are required to maintain adequate levels of capital as measured by several regulatory capital ratios. One of our goals is to maintain capital levels that are at least well capitalized under regulatory standards. The Company and each of its banking subsidiaries met the well capitalized guidelines at December 31, 2006. In addition, the Parent and certain of its banking subsidiaries have issued various debt securities that have been rated by the principal rating agencies. As a result, another goal is to maintain capital at levels consistent with an investment grade rating for these debt securities. The Company has maintained its investment grade debt ratings, as have those of its bank subsidiaries that have ratings. At year-end 2006 the Company s tangible common equity ratio increased to 5.98% compared to 5.28% at the end of 2005. In December 2006 the Company issued $240 million of non-cumulative perpetual preferred stock; this additional capital raised the Company s tangible equity ratio to 6.51% at year-end. The Company announced in the fourth quarter that it would target a tangible equity ratio of 6.25 - 6.50%, replacing the previously announced tangible common equity ratio target at the same level. In conjunction with these actions, the Company s Board of Directors authorized a $400 million common stock buyback program, and the Company repurchased $25.0 million of its common stock in December 2006.

The Company continues to believe that capital in excess of that required to support the risks of the business in which it engages should be returned to the shareholders. In addition to dividends, the Company currently expects to use the remaining $375 million stock buyback authorization during 2007.

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In addition, we believe that the Company should engage or invest in business activities that provide attractive returns on equity. Chart 9 illustrates that as a result of earnings improvement, the exit of underperforming businesses and returning unneeded capital to the shareholders, the Company s return on average common equity has improved in recent years. The decline in 2006 is due to the additional common equity held due to additional intangible assets (primarily goodwill and core deposit intangibles) that resulted from the premium paid to acquire Amegy.

As depicted in Chart 10, tangible return on average tangible common equity further improved in 2006 as the Company continued to improve its core operating results.

Note: Tangible return is net earnings applicable to common

shareholders plus after-tax amortization of core deposit and

other intangibles and impairment losses on goodwill.

Challenges to Operations

As detailed in Schedule 2 on page 21, several factors combined to improve the Company s performance in 2006 from 2005. The Company continued to experience strong loan growth, but deposit growth lagged. The improving economic conditions that began in 2004 continued through 2005 and 2006, and spread to include essentially all of our markets during the past year. However, as noted, growth in residential real estate development and construction slowed considerably in the second half of 2006 in Arizona, Southern California, and Southern Nevada. Credit quality remained exceptional during the year as nonperforming assets and net charge-off percentages remained at historically low levels. The Company was able to slightly improve its net interest margin year over year during a period when other financial institutions were experiencing significant margin compression due to the challenging interest rate environment.

As we enter 2007, we see several significant challenges to improving performance.

We expect that commercial real estate loans, which declined in CB&T and NSB in the fourth quarter, may continue to decline in our Southwestern markets throughout the first half of 2007. However, commercial loan growth has been accelerating, particularly in Zions Bank, Amegy and Vectra, which has kept aggregate loan growth robust.

Over the last two years, the Company has experienced historically high levels of credit quality. While we do not see any indications that loan quality will deteriorate significantly, it is unlikely we will be able to maintain credit quality at these levels for an indefinite period of time. The 2006 annual provision for loan losses was $73 million, an increase from 2005 of $30 million, and we expect that loan loss provisions may continue in 2007 at levels similar to 2006 if loan growth remains strong.

During 2006 we saw increased pressure on the pricing of both loans and deposits as the economy continued to expand and competition for good business increased. In particular, deposit rates repriced upward at an increasing rate in the latter half of 2005 and first half of 2006, the Federal Reserve continued to raise short-term interest rates, and the competition for deposits intensified.

We expect these pressures to continue in 2007, although perhaps not as severely if the Federal Reserve does not raise interest rates further. For more information on our asset-liability management processes, see Interest Rate and Market Risk Management on page 86.

We anticipate that economic conditions will continue to be strong in our geographic footprint during 2007, with weakness in residential real estate as previously discussed. However, any number of unforeseen events could result in a weaker economy that in turn could negatively impact loan growth and credit quality.

Excluding the impact of the Stockmen s acquisition, we expect to see moderate growth in both revenues and expenses during 2007, and believe that controlling operating expenses will continue to be an important factor in improving our overall performance. We will continue to see increased expense levels during 2007 for systems conversions at Stockmen s and CB&T, but we expect these conversions to result in ongoing expense savings when completed. We are also investing in creating systems, data and processes that may enable us to qualify for the proposed Basel II capital requirements.

Compliance with regulatory requirements pose an ongoing challenge. A failure in our internal controls could have a significant negative impact not only on our earnings but also on the perception that customers, regulators and investors may have of the Company. We continue to devote a significant amount of effort, time and resources to improving our controls and ensuring compliance with these complex regulations.

We have a number of business initiatives that, while we believe they will ultimately produce profits for our shareholders, currently generate expenses in excess of revenues. Three significant initiatives are Contango, a wealth management business started in 2004, NetDeposit, our subsidiary that provides electronic check processing systems, and the increased investments in treasury management and medical claims capabilities discussed in the Executive Summary. We will need to manage these businesses carefully to ensure that expenses and revenues develop in a planned way and that profits are not impaired to an extent that is not warranted by the opportunities these businesses provide.

Finally, competition from credit unions continues to pose a significant challenge. The aggressive expansion of some credit unions, far beyond the traditional concept of a common bond, presents a competitive threat to Zions and many other banking companies. While this is an issue in all of our markets, it is especially acute in Utah where two of the five largest financial institutions (measured by local deposits) are credit unions that are exempt from all state and federal income tax.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

The Notes to Consolidated Financial Statements contain a summary of the Company s significant accounting policies. We believe that an understanding of certain of these policies, along with the related estimates that we are required to make in recording the financial transactions of the Company, is important in order to have a complete picture of the Company s financial condition. In

addition, in arriving at these estimates, we are required to make complex and subjective judgments, many of which include a high degree of uncertainty. The following is a discussion of these critical accounting policies and significant estimates related to these policies. We have discussed each of these accounting policies and the related estimates with the Audit Committee of the Board of Directors.

We have included sensitivity schedules and other examples to demonstrate the impact of the changes in estimates made for various financial transactions. The sensitivities in these schedules and examples are hypothetical and should be viewed with caution. Changes in estimates are based on variations in assumptions and are not subject to simple extrapolation, as the relationship of the change in the assumption to the change in the amount of the estimate may not be linear. In addition, the effect of a variation in one assumption is in reality likely to cause changes in other assumptions, which could potentially magnify or counteract the sensitivities.

Securitization Transactions

The Company from time to time enters into securitization transactions that involve transfers of loans or other receivables to off-balance-sheet QSPEs. In most instances, we provide the servicing on these loans as a condition of the sale. In addition, as part of these transactions, the Company may retain a cash reserve account, an interest-only strip, or in some cases a subordinated tranche, all of which are considered to be retained interests in the securitized assets.

Whenever we initiate a securitization, the first determination that we must make in connection with the transaction is whether the transfer of the assets constitutes a sale under U.S. generally accepted accounting principles. If it does, the assets are removed from the Company s consolidated balance sheet with a gain or loss recognized. Otherwise, the transfer is considered a financing, resulting in no gain or loss being recognized and the recording of a liability on the Company s consolidated balance sheet. The financing treatment could have unfavorable financial implications including an adverse effect on Zions results of operations and capital ratios. However, all of the Company s securitizations have been structured to meet the existing criteria for sale treatment.

Another determination that must be made is whether the special-purpose entity involved in the securitization is independent from the Company or whether it should be included in its consolidated financial statements. If the entity s activities meet certain criteria for it to be considered a QSPE, no consolidation is required. Since all of the Company s securitizations have been with entities that have met the requirements to be treated as QSPEs, they have met the existing accounting criteria for nonconsolidation.

Finally, we must make assumptions to determine the amount of gain or loss resulting from the securitization transaction as well as the subsequent carrying amount for the retained interests. In determining the gain or loss, we use assumptions that are based on the facts surrounding each securitization. Using alternatives to these assumptions could affect the amount of gain or loss recognized on the transaction and, in turn, the Company s results of operations. In valuing the retained interests, since quoted market prices of these interests are generally not available, we must estimate their value based on the present value of the future cash flows associated with the securitizations. These value estimations require the Company to make a number of assumptions including:

the method to use in computing the prepayments of the securitized loans;

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- the annualized prepayment speed of the securitized loans;
- the weighted average life of the loans in the securitization;
- the expected annual net credit loss rate; and
- the discount rate for the residual cash flows.

Quarterly, the Company reviews its valuation assumptions for retained beneficial interests under the rules contained in Emerging Issues Task Force Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*, (EITF 99-20). These rules require the Company to periodically update its assumptions used to compute estimated cash flows for its retained beneficial interests and compare the net present value of these cash flows to the carrying value. The Company complies with EITF 99-20 by quarterly evaluating and updating its assumptions including the default assumption as compared to the historical credit losses and the credit loss expectation of the portfolio, and its prepayment speed assumption as compared to the historical prepayment speeds and prepayment rate expectation. Changes in certain 2006 assumptions from 2005 for securizations were made in accordance with this process.

Schedule 3 summarizes the key economic assumptions that we used for measuring the values of the retained interests at the date of sale for securitizations during 2006, 2005, and 2004.

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SCHEDULE 3

KEY ECONOMIC ASSUMPTIONS USED TO VALUE

RETAINED INTERESTS

	Home equity loans	**Small business loans**
2006:		
Prepayment method	na(1)	na(2)
Annualized prepayment speed	na(1)	na(2)
Weighted average life (in months)	11	na(2)
Expected annual net loss rate	0.10%	na(2)
Residual cash flows discounted at	15.0%	na(2)
2005:		
Prepayment method	na(1)	CPR(3)
Annualized prepayment speed	na(1)	4 - 15 Ramp in 25 months(4)
Weighted average life (in months)	12	69
Expected annual net loss rate	0.10%	0.40%
Residual cash flows discounted at	15.0%	15.0%
2004:		
Prepayment method	na(1)	CPR(3)
Annualized prepayment speed	na(1)	10, 15 Ramp-up(5)
Weighted average life (in months)	11	64
Expected annual net loss rate	0.10%	0.50%
Residual cash flows discounted at	15.0%	15.0%

(1) The weighted average life assumption includes consideration of prepayment to determine the fair value of the capitalized residual cash flows.
(2) No small business loan securitization sales occurred in 2006.
(3) Constant Prepayment Rate.
(4) Annualized prepayment speed begins at 4% and increases at equal increments to 15% in 25 months.
(5) Annualized prepayment speed is 10% in the first year and 15% thereafter.

Schedule 4 sets forth the sensitivity of the current fair value of the capitalized residual cash flows at December 31, 2006 to immediate 10% and 20% adverse changes to those key assumptions that reflect the current portfolio assumptions.

SCHEDULE 4

SENSITIVITY OF RESIDUAL CASH FLOWS TO ADVERSE CHANGES

OF CURRENT PORTFOLIO KEY VALUATION ASSUMPTIONS

(In millions of dollars and annualized percentage rates)		Home equity loans	Small business loans
Carrying amount/fair value of capitalized residual cash flows		$ 4.5	78.6
Weighted average life (in months)		11	32 - 62
Prepayment speed assumption		na(1)	12.5% - 28.0%(2)
Decrease in fair value due to adverse change	10%	$ 0.1	3.0
	20%	$ 0.1	5.7
Expected credit losses		0.10%	0.20% - 0.50%
Decrease in fair value due to adverse change	10%	$ 0.1	1.3
	20%	$ 0.1	2.5
Residual cash flows discount rate		12.0%	13.0% - 13.8%
Decrease in fair value due to adverse change	10%	$ 0.1	2.4
	20%	$ 0.1	4.7

(1) The weighted average life assumption includes consideration of prepayment to determine the fair value of the capitalized residual cash flows.
(2) The prepayment speed assumption at December 31, 2006 for the small business loan securitizations transacted in 2005 and 2004 was 12.5 - 15 Ramp-up in 24 months and 13.5 - 15 Ramp-up in 10 months, respectively.

Allowance for Loan Losses

The allowance for loan losses represents our estimate of the losses that are inherent in the loan and lease portfolios. The determination of the appropriate level of the allowance is based on periodic evaluations of the portfolios along with other relevant factors. These evaluations are inherently subjective and require us to make numerous assumptions, estimates, and judgments.

In analyzing the adequacy of the allowance for loan losses, we utilize a comprehensive loan grading system to determine the risk potential in the portfolio and also consider the results of independent internal credit reviews. To determine the adequacy of the allowance, the Company s loan and lease portfolio is broken into segments based on loan type. For commercial loans, we use historical loss experience factors by loan segment, adjusted for changes in trends and conditions, to help determine an indicated allowance for each segment. These factors are based on a migration analysis technique and other considerations based on the makeup of the specific portfolio segment. The other considerations used in our analysis include volumes and trends of delinquencies, levels of nonaccrual loans, repossessions and bankruptcies, trends in criticized and classified loans, and expected losses on loans secured by real estate. In addition, new credit products and policies, current economic conditions, concentrations of credit risk, and the experience and abilities of lending personnel are also taken into consideration.

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In addition to the segment evaluations, nonaccrual loans graded substandard or doubtful with an outstanding balance of $500 thousand or more are individually evaluated in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan,* to determine the level of impairment and establish a specific reserve. A specific allowance is established for loans adversely graded below $500 thousand when it is determined that the risk associated with the loan differs significantly from the risk factor amounts established for its loan segment.

For consumer loans, we use a forecasting model based on internally generated portfolio delinquencies that employs roll rates to calculate losses. Roll rates are the rates at which accounts migrate from one delinquency level to the next higher level. Using average roll rates for the most recent twelve-month period and comparing projected losses to actual loss experience, the model estimates the expected losses in dollars for the forecasted period. By refreshing it with updated data, the model establishes projected losses for a new twelve-month period each month, segmenting the portfolio into nine product groupings with similar risk profiles.

As a final step to the evaluation process, we perform an additional review of the adequacy of the allowance based on the loan portfolio in its entirety. This enables us to mitigate the imprecision inherent in most estimates of expected credit losses. This review of the allowance includes our judgmental consideration of any adjustments necessary for subjective factors such as economic uncertainties and excessive concentration risks.

There are numerous components that enter into the evaluation of the allowance for loan losses. Some are quantitative while others require us to make qualitative judgments. Although we believe that our processes for determining an appropriate level for the allowance adequately address all of the components that could potentially result in credit losses, the processes and their elements include features that may be susceptible to significant change. Any unfavorable differences between the actual outcome of credit-related events and our estimates and projections could require an additional provision for credit losses, which would negatively impact the Company s results of operations in future periods. As an example, if a total of $250 million of nonclassified loans were to be immediately classified as special mention, substandard and doubtful in the same proportion as the existing portfolio, the amount of the allowance for loan losses at December 31, 2006 would increase by approximately $16 million. In addition, since the allowance for loan losses is assigned to the Company s business segments that have loan portfolios, any earnings impact resulting from actual results differing from our estimates would have the largest impact on those segments with the largest loan portfolios, namely Zions Bank, CB&T and Amegy. This sensitivity analysis is hypothetical and has been provided only to indicate the potential impact that changes in the level of the criticized and classified loans may have on the allowance estimation process. We believe that given the procedures that we follow in determining the potential losses in the loan portfolio, the various components used in the current estimation processes are appropriate.

We are in the process of developing potential changes to enhance our methodology for determining the allowance for loan losses. The potential changes include incorporating a two-factor grading system to include probability of default and loss given default. We currently anticipate that these changes will be phased in during 2007 and 2008.

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Nonmarketable Equity Securities

The Company either directly, through its banking subsidiaries or through its Small Business Investment Companies (SBIC), owns investments in venture funds and other capital securities that are not publicly traded and are not accounted for using the equity method. Since these nonmarketable securities have no readily ascertainable fair values, they are reported at amounts that we have estimated to be their fair values. In estimating the fair value of each investment, we must apply judgment using certain assumptions. Initially, we believe that an investment s cost is the best indication of its fair value, provided that there have been no significant positive or negative developments subsequent to its acquisition that indicate the necessity of an adjustment to a fair value estimate. If and when such an event takes place, we adjust the investment s cost by an amount that we believe reflects the nature of the event. In addition, any minority interests in the Company s SBICs reduce its share of any gains or losses incurred on these investments.

As of December 31, 2006, the Company s total investment in nonmarketable equity securities not accounted for using the equity method was $117.6 million, of which its equity exposure to investments held by the SBICs, net of related minority interest of $41.2 million and SBA debt of $7.0 million, was $55.5 million. In addition, exposure to non-SBIC equity investments not accounted for by the equity method was $13.9 million.

The values that we have assigned to these securities where no market quotations exist are based upon available information and may not necessarily represent amounts that ultimately will be realized on these securities. Key information used in valuing these securities include the projected financial performance of these companies, the evaluation of the investee company s management team, and other industry, economic and market factors. If there had been an active market for these securities, the carrying value may have been significantly different from the amounts reported. In addition, since Zions Bank and Amegy are the principal business segments holding these investments, they would experience the largest impact of any changes in the fair values of these securities.

Accounting for Goodwill

Goodwill arises from business acquisitions and represents the value attributable to the unidentifiable intangible elements in our acquired businesses. Goodwill is initially recorded at fair value and is subsequently evaluated at least annually for impairment in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. The Company performs this annual test as of October 1 of each year. Evaluations are also performed on a more frequent basis if events or circumstances indicate impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, an adverse action by a regulator, an unanticipated change in the competitive environment, and a decision to change the operations or dispose of a reporting unit.

The first step in this evaluation process is to determine if a potential impairment exists in any of the Company s reporting units and, if required from the results of this step, a second step measures the amount of any impairment loss. The computations required by steps 1 and 2 call for us to make a number of estimates and assumptions. In completing step 1, we determine the fair value of the reporting unit that is being evaluated. In determining the fair value, we generally calculate value using a combination of up to three separate methods: comparable publicly traded financial service companies in the Western and Southwestern states; comparable

acquisitions of financial services companies in the Western and Southwestern states; and the discounted present value of management s estimates of future cash or income flows. Critical assumptions that are used as part of these calculations include:

- selection of comparable publicly traded companies, based on location, size, and business composition;
- selection of comparable acquisition transactions, based on location, size, business composition, and date of the transaction;
- the discount rate applied to future earnings, based on an estimate of the cost of capital;
- the potential future earnings of the reporting unit;
- the relative weight given to the valuations derived by the three methods described.

If step 1 indicates a potential impairment of a reporting unit, step 2 requires us to estimate the implied fair value of the reporting unit. This process estimates the fair value of the unit s individual assets and liabilities in the same manner as if a purchase of the reporting unit were taking place. To do this we must determine the fair value of the assets, liabilities and identifiable intangible assets of the reporting unit based upon the best available information. If the value of goodwill calculated in step 2 is less than the carrying amount of goodwill for the reporting unit, an impairment is indicated and the carrying value of goodwill is written down to the calculated value.

Since estimates are an integral part of the impairment computations, changes in these estimates could have a significant impact on any calculated impairment amount. Factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures and technology, changes in discount rates, changes in stock and mergers and acquisitions market values, and changes in industry or market sector conditions.

During the fourth quarter of 2006, we performed our annual goodwill impairment evaluation for the entire organization, effective October 1, 2006. Step 1 was performed by using both market value and transaction value approaches for all reporting units and, in certain cases, the discounted cash flow approach was also used. In the market value approach, we identified a group of publicly traded banks that are similar in size and location to Zions subsidiary banks and then used valuation multiples developed from the group to apply to our subsidiary banks. In the transaction value approach, we reviewed the purchase price paid in recent mergers and acquisitions of banks similar in size to Zions subsidiary banks. From these purchase prices we developed a set of valuation multiples, which we applied to our subsidiary banks. In instances where the discounted cash flow approach was used, we discounted projected cash flows to their present value to arrive at our estimate of fair value.

Upon completion of step 1 of the evaluation process, we concluded that no potential impairment existed for any of the Company s reporting units. In reaching this conclusion, we determined that the fair values of goodwill exceeded the recorded values of goodwill. Since this evaluation process required us to make estimates and assumptions with regard to the fair value of the Company s reporting units, actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill

that would, in turn, negatively impact the Company s results of operations and the business segments where the goodwill is recorded. However, had our estimated fair values been 10% lower, there would still have been no indication of impairment for any of our reporting units.

Accounting for Derivatives

Our interest rate risk management strategy involves hedging the repricing characteristics of certain assets and liabilities so as to mitigate adverse effects on the Company s net interest margin and cash flows from changes in interest rates. While we do not participate in speculative derivatives trading, we consider it prudent to use certain derivative instruments to add stability to the Company s interest income and expense, to modify the duration of specific assets and liabilities, and to manage the Company s exposure to interest rate movements. In addition, the Company has a program to provide derivative financial instruments to certain customers, acting as an intermediary in the transaction. Upon issuance, all of these customer derivatives are immediately hedged by offsetting derivative contracts, such that the Company has no net interest rate risk exposure resulting from the transaction.

All derivative instruments are carried on the balance sheet at fair value. As of December 31, 2006, the recorded amounts of derivative assets, classified in other assets, and derivative liabilities, classified in other liabilities, were $51.7 million and $63.2 million, respectively. Since there are no market value quotes for the specific derivative instruments that the Company holds, we must estimate their fair values. Generally this estimate is made by an independent third party using a standardized methodology that nets the discounted expected future cash receipts and cash payments (based on observable market inputs). These future net cash flows, however, are susceptible to change due primarily to fluctuations in interest rates. As a result, the estimated values of these derivatives will typically change over time as cash is received and paid and also as market conditions change. As these changes take place, they may have a positive or negative impact on our estimated valuations. However, based on the nature and limited purposes of the derivatives that the Company employs, fluctuations in interest rates have only a modest effect on its results of operations.

In addition to making the valuation estimates, we also face the risk that certain derivative instruments that have been designated as hedges and currently meet the strict hedge accounting requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, may not qualify in the future as highly effective, as defined by the Statement, as well as the risk that hedged transactions in cash flow hedging relationships may no longer be considered probable to occur. During 2006, no hedge ineffectiveness was required to be reported in earnings on the Company s cash flow hedging relationships. Further, new interpretations and guidance related to SFAS 133 continue to be issued and we cannot predict the possible impact that they will have on our use of derivative instruments in the future.

Although the majority of the Company s hedging relationships have been designated as cash flow hedges, for which hedge effectiveness is assessed and measured using a long haul approach, the Company also had five fair value hedging relationships outstanding as of December 31, 2006 that were designated using the shortcut method, as described in SFAS 133, paragraph 68. The Company believes that the shortcut method continues to be appropriate for those hedges because we have precisely complied with the documentation requirements and each of the applicable shortcut criteria described in paragraph 68.

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Pension Accounting

As explained in detail in Note 20 of the Notes to Consolidated Financial Statements, we have a noncontributory defined benefit pension plan that is available to employees who have met specific eligibility requirements. Also as explained in the Note, as of January 1, 2003, no new employees are eligible to participate in the plan and future benefit accruals were eliminated for most participants.

In accounting for the plan, we must determine the obligation associated with the plan benefits and compare that with the assets that the plan owns. This requires us to incorporate numerous assumptions, including the expected rate of return on plan assets, the projected rate of increase of the salaries of the eligible employees and the discount rates to use in estimating the fair value of the liability. The expected rate of return on plan assets is intended to approximate the long-term rate of return that we anticipate receiving on the plan s investments, considering the mix of the assets that the plan holds as investments, the expected return of those underlying investments, the diversification of those investments, and the re-balancing strategy employed. The projected rates of salary increases are management s estimate of future pay increases that the remaining eligible employees will receive until their retirement. The discount rate reflects the yields available on long-term, high-quality fixed-income debt instruments with cash flows similar to the obligations of the plan, reset annually on the measurement date, which is December 31 of each year.

The annual pension expense is sensitive to the expected rate of return on plan assets. For example, for the year 2006 the expected rate of return on plan assets was 8.50%. For each 25 basis point change in this rate, the Company s pension expense would change by approximately $300 thousand. In applying the expected rate of return on plan assets to our pension accounting, we base our calculations on the fair value of plan assets, using an arithmetic method to calculate the expected return on the plan assets.

The annual pension expense is not significantly sensitive to the projected rate of increase of salaries of the eligible employees. This is due to the limited number of employees who continue to actively accrue benefits within the plan.

The annual pension expense is also sensitive to the discount rate employed. For example, the discount rate used in the 2006 pension expense calculation was 5.60%. If this rate were 25 basis points lower, the pension expense would increase by approximately $280 thousand. If the rate were 25 basis points higher, the pension expense would decrease by approximately $270 thousand.

In estimating the annual pension expense and funded status associated with the defined benefit plan, we must make a number of assumptions and estimates based upon our judgment and also on information that we receive from an independent actuary. These assumptions and estimates are closely monitored and are reviewed at least annually for any adjustments that may be required.

In addition, we assumed obligations of a defined benefit plan when we acquired Amegy. That plan resulted from a previous acquisition by Amegy. The plan is also frozen and we are in the process of terminating it. The planned termination was considered in remeasuring the acquired plan projected benefit obligation at the date of the Amegy acquisition. The acquired plan projected benefit obligation exceeded the fair value of the plan assets by $2.1 million and was recorded as part of the purchase price allocation.

Share-Based Compensation

As discussed in Note 17 of the Notes to Consolidated Financial Statements, effective January 1, 2006, we adopted SFAS No. 123R, *Share-Based Payment*, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of income based on their fair values. SFAS 123R utilizes a modified grant-date approach in which the fair value of an equity award is estimated on the grant date without regard to service or performance vesting conditions. While under prior guidance we elected not to expense share-based compensation, we have disclosed in Note 17 the pro forma effect on net income as if our share-based compensation had been expensed.

We adopted SFAS 123R using the modified prospective transition method. Under this transition method, compensation expense is recognized beginning January 1, 2006 based on the requirements of SFAS 123R for all share-based payments granted after December 31, 2005, and based on the requirements of SFAS 123 for all awards granted to employees prior to January 1, 2006 that remain unvested as of that date. Results of operations for prior years have not been restated.

The Company has used the Black-Scholes option-pricing model to estimate the value of stock options and the pro forma expense for share-based compensation. The assumptions used to apply this model include a weighted average risk-free interest rate, a weighted average expected life, an expected dividend yield, and an expected volatility. Use of these assumptions is subjective and requires judgment as described in Note 17.

The most significant assumptions impacted by management s judgment are the weighted average expected life and the expected volatility. The Company performed a sensitivity analysis of the impact of increasing and decreasing expected volatility 10% as well as the impact of increasing and decreasing the weighted average expected life by one year. The Company performed this analysis on the stock options granted in 2006. The following table shows the impact of these changes on the Company s stock option expense for the options granted in 2006:

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SCHEDULE 5

SENSITIVITY OF BLACK-SCHOLES ASSUMPTIONS ON STOCK OPTION EXPENSE

(In thousands)

Actual stock option expense for 2006 grants	$ 3,037
Stock option expense increase (decrease) under the following assumption changes:	
Volatility decreased 10% (18% to 8%)	(1,006)
Volatility increased 10% (18% to 28%)	1,079
Average life decreased 1 year	(429)
Average life increased 1 year	388

The adoption of SFAS 123R decreased income before income taxes by $17.5 million and net income by approximately $12.6 million for 2006, or $0.12 per diluted share. See Note 17 for additional information on stock options and restricted stock.

Income Taxes

The Company is subject to the income tax laws of the United States, its states and other jurisdictions where it conducts business. These laws are complex and subject to different interpretations by the taxpayer and the various taxing authorities. In determining the provision for income taxes, management must make judgments and estimates about the application of these inherently complex laws, related regulations, and case law. In the process of preparing the Company s tax returns, management attempts to make reasonable interpretations of the tax laws. These interpretations are subject to challenge by the tax authorities upon audit or to reinterpretation based on management s ongoing assessment of facts and evolving case law.

On a quarterly basis, management assesses the reasonableness of its effective tax rate based upon its current best estimate of net income and the applicable taxes expected for the full year. Deferred tax assets and liabilities are also reassessed on a quarterly basis, if business events or circumstances warrant. Reserves for contingent tax liabilities are reviewed quarterly for adequacy based upon developments in tax law and the status of examinations or audits. The Company has tax reserves at December 31, 2006 of approximately $39 million for uncertain tax positions primarily for various state tax contingencies in several jurisdictions.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. Under the guidance of FIN 48, management estimates that these reserves may decrease by approximately $9 million to $13 million, which is subject to revision when management completes an analysis of the impact of FIN 48. As required by FIN 48 upon adoption on January 1, 2007, this difference will be recorded in retained earnings as a cumulative effect adjustment. See Note 15 of the Notes to Consolidated Financial Statements for additional information on income taxes.

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RESULTS OF OPERATIONS

As previously disclosed, the Company completed its acquisition of Amegy Bancorporation, Inc. in December 2005. All comparisons of 2006 to 2005 and prior periods reflect the effects of the Amegy acquisition.

Net Interest Income, Margin and Interest Rate Spreads

Net interest income is the difference between interest earned on assets and interest incurred on liabilities. Taxable-equivalent net interest income is the largest component of Zions revenue. For the year 2006, it was 76.4% of our taxable-equivalent revenues, compared to 76.0% for 2005 and 73.3% in 2004. On a taxable-equivalent basis, net interest income for 2006 was up $406.6 million or 29.4% from 2005, which was up $200.3 million or 16.9% from 2004. The increase in taxable-equivalent net interest income for 2006 was driven by the significant increase in both earning assets and core deposits resulting from the Amegy acquisition, strong organic loan growth, and the impact of increasing short-term interest rates on Zions asset-sensitive balance sheet, which resulted in a 5 basis point increase in the net interest margin compared to 2005. The net interest margin for 2005 was up 31 basis points from 2004. The incremental tax rate used for calculating all taxable-equivalent adjustments was 35% for all years discussed and presented.

By its nature, net interest income is especially vulnerable to changes in the mix and amounts of interest-earning assets and interest-bearing liabilities. In addition, changes in the interest rates and yields associated with these assets and liabilities significantly impact net interest income. See Interest Rate and Market Risk Management on page 86 for a complete discussion of how we manage the portfolios of interest-earning assets and interest-bearing liabilities and associated risk.

A gauge that we consistently use to measure the Company s success in managing its net interest income is the level and stability of the net interest margin. The net interest margin was 4.63% in 2006 compared with 4.58% in 2005 and 4.27% in 2004. The slightly increased margin for 2006 results mainly from an improved earning asset mix and from the impact of increasing short-term interest rates on Zions asset-sensitive balance sheet. In addition we significantly improved Amegy s pre-acquisition earning asset mix and net interest margin by applying Zions interest rate risk management strategies. Higher yielding average loans and leases increased $8.4 billion from 2005 while lower yielding average money market investments and securities increased $128 million. For the fourth quarter of 2006, the Company s net interest margin was 4.60%. However the Company s funding mix actually shifted in an unfavorable direction in 2006 as core deposit growth slowed and earning asset growth was funded from more expensive sources. For example, average noninterest-bearing deposits were 29.8% of total average deposits for 2005, compared to 29.0% for 2006. Over the same period, average time deposits greater than $100,000 increased from 6.9% to 10.0% of total average deposits.

The increased margin for 2005 compared to 2004 resulted mainly from an improved asset and liability mix and from the impact of increasing short-term interest rates on Zions asset-sensitive balance sheet. Higher yielding average loans and leases increased $3.0 billion from 2004 while lower yielding average money market investments and securities decreased $0.5 billion. The net increase in interest-earnings assets was mainly funded by increases in lower cost average interest-bearing deposits which increased $1.6 billion and average noninterest-bearing deposits which increased $1.1 billion, while average borrowed funds decreased $0.5 billion from 2004.

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The Company expects to continue its efforts to maintain a slightly asset-sensitive position with regard to interest rate risk. However, our estimates of the Company s actual position are highly dependent upon changes in both short-term and long-term interest rates, modeling assumptions, and the actions of competitors and customers in response to those changes.

Schedule 6 summarizes the average balances, the amount of interest earned or incurred and the applicable yields for interest-earning assets and the costs of interest-bearing liabilities that generate taxable-equivalent net interest income.

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SCHEDULE 6

DISTRIBUTION OF ASSETS, LIABILITIES, AND SHAREHOLDERS EQUITY

AVERAGE BALANCE SHEETS, YIELDS AND RATES

	2006			2005		
(Amounts in millions)	Average balance	Amount of interest(1)	Average rate	Average balance	Amount of interest(1)	Average rate
ASSETS:						
Money market investments	$ 479	24.7	5.16%	$ 988	31.7	3.21%
Securities:						
Held to maturity	645	44.1	6.83	639	44.2	6.93
Available for sale	4,992	285.5	5.72	4,021	207.7	5.16
Trading account	157	7.7	4.91	497	19.9	4.00
Total securities	5,794	337.3	5.82	5,157	271.8	5.27
Loans:						
Loans held for sale	261	16.5	6.30	205	9.8	4.80
Net loans and leases(2)	32,134	2,463.9	7.67	23,804	1,618.0	6.80
Total loans and leases	32,395	2,480.4	7.66	24,009	1,627.8	6.78
Total interest-earning assets	38,668	2,842.4	7.35	30,154	1,931.3	6.40
Cash and due from banks	1,476			1,123		
Allowance for loan losses	(349)			(285)		
Goodwill	1,887			746		
Core deposit and other intangibles	181			66		
Other assets	2,379			1,799		
Total assets	$ 44,242			$ 33,603		
LIABILITIES:						
Interest-bearing deposits:						
Savings and NOW	$ 5,129	75.3	1.47	$ 4,347	36.7	0.84
Money market	10,721	330.0	3.08	9,131	183.9	2.01
Time under $100,000	2,065	77.4	3.75	1,523	41.7	2.74
Time $100,000 and over	3,272	142.6	4.36	1,713	54.7	3.19
Foreign	2,065	95.5	4.62	737	23.3	3.16
Total interest-bearing deposits	23,252	720.8	3.10	17,451	340.3	1.95
Borrowed funds:						
Securities sold, not yet purchased	66	3.0	4.57	475	17.7	3.72
	2,838	124.7	4.39	2,307	63.6	2.76

Federal funds purchased and security repurchase agreements						
Commercial paper	220	11.4	5.20	149	5.0	3.36
FHLB advances and other borrowings:						
One year or less	479	25.3	5.27	204	5.9	2.90
Over one year	148	8.6	5.80	228	11.5	5.05
Long-term debt	2,491	159.6	6.41	1,786	104.9	5.88
Total borrowed funds	6,242	332.6	5.33	5,149	208.6	4.05
Total interest-bearing liabilities	29,494	1,053.4	3.57	22,600	548.9	2.43
Noninterest-bearing deposits	9,508			7,417		
Other liabilities	697			533		
Total liabilities	39,699			30,550		
Minority interest	34			26		
Shareholders equity:						
Preferred equity	16					
Common equity	4,493			3,027		
Total shareholders equity	4,509			3,027		
Total liabilities and shareholders equity	$ 44,242			$ 33,603		
Spread on average interest-bearing funds			3.78%			3.97%
Taxable-equivalent net interest income and net yield on interest-earning assets		1,789.0	4.63%		1,382.4	4.58%

(1) Taxable-equivalent rates used where applicable.

(2) Net of unearned income and fees, net of related costs. Loans include nonaccrual and restructured loans.

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2004			2003			2002		
Average balance	Amount of interest(1)	Average rate	Average balance	Amount of interest(1)	Average rate	Average balance	Amount of interest(1)	Average rate
$ 1,463	16.4	1.12%	$ 1,343	13.0	0.97%	$ 1,199	18.6	1.55%
500	34.3	6.86				43	2.3	5.34
3,968	174.5	4.40	3,736	171.5	4.59	3,209	170.0	5.30
732	29.6	4.04	711	24.7	3.47	611	22.1	3.62
5,200	238.4	4.59	4,447	196.2	4.41	3,863	194.4	5.03
159	5.1	3.16	220	8.3	3.77	210	9.4	4.50
20,887	1,252.8	6.00	19,105	1,194.2	6.25	17,904	1,245.4	6.96
21,046	1,257.9	5.98	19,325	1,202.5	6.22	18,114	1,254.8	6.93
27,709	1,512.7	5.46	25,115	1,411.7	5.62	23,176	1,467.8	6.33
1,026			953			939		
(272)			(282)			(267)		
648			711			744		
65			77			98		
1,760			1,630			1,606		
$ 30,936			$ 28,204			$ 26,296		
$ 4,245	24.4	0.58	$ 3,810	23.4	0.62	$ 3,308	34.6	1.05
8,572	96.8	1.13	8,064	88.2	1.09	7,268	130.0	1.79
1,436	27.5	1.92	1,644	36.9	2.25	1,911	62.1	3.25
1,244	29.2	2.35	1,290	33.3	2.58	1,487	50.5	3.40
338	4.4	1.30	186	1.7	0.89	106	1.5	1.42
15,835	182.3	1.15	14,994	183.5	1.22	14,080	278.7	1.98
625	24.2	3.86	538	20.4	3.80	394	16.4	4.17
2,682	32.2	1.20	2,605	25.5	0.98	2,528	39.1	1.55
201	3.0	1.51	215	3.0	1.41	359	7.5	2.09
252	2.9	1.14	145	1.9	1.32	533	10.3	1.93
230	11.7	5.08	237	12.3	5.19	240	12.4	5.18
1,659	74.3	4.48	1,277	57.3	4.48	874	56.3	6.45
5,649	148.3	2.62	5,017	120.4	2.40	4,928	142.0	2.88

21,484	330.6	1.54	20,011	303.9	1.52	19,008	420.7	2.21
6,269			5,259			4,522		
501			444			404		
28,254			25,714			23,934		
23			22			21		
2,659			2,468			2,341		
2,659			2,468			2,341		
$ 30,936			$ 28,204			$ 26,296		
		3.92%			4.10%			4.12%
	1,182.1	4.27%		1,107.8	4.41%		1,047.1	4.52%

Schedule 7 analyzes the year-to-year changes in net interest income on a fully taxable-equivalent basis for the years indicated. For purposes of calculating the yields in these schedules, the average loan balances also include the principal amounts of nonaccrual and restructured loans. However, interest received on nonaccrual loans is included in income only to the extent that cash payments have been received and not applied to principal reductions. In addition, interest on restructured loans is generally accrued at reduced rates.

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SCHEDULE 7

ANALYSIS OF INTEREST CHANGES DUE TO VOLUME AND RATE

	2006 over 2005			2005 over 2004		
	Changes due to		Total	Changes due to		Total
(In millions)	Volume	Rate(1)	changes	Volume	Rate(1)	changes
INTEREST-EARNING ASSETS:						
Money market investments	$ (16.3)	9.3	(7.0)	(5.3)	20.6	15.3
Securities:						
Held to maturity	0.5	(0.6)	(0.1)	9.6	0.3	9.9
Available for sale	53.7	24.1	77.8	2.5	30.7	33.2
Trading account	(13.6)	1.4	(12.2)	(9.4)	(0.3)	(9.7)
Total securities	40.6	24.9	65.5	2.7	30.7	33.4
Loans:						
Loans held for sale	3.2	3.5	6.7	1.6	3.1	4.7
Net loans and leases(2)	619.1	226.8	845.9	186.8	178.4	365.2
Total loans and leases	622.3	230.3	852.6	188.4	181.5	369.9
Total interest-earning assets	$ 646.6	264.5	911.1	185.8	232.8	418.6
INTEREST-BEARING LIABILITIES:						
Interest-bearing deposits:						
Savings and NOW	$ 7.4	31.2	38.6	0.8	11.5	12.3
Money market	35.8	110.3	146.1	6.8	80.3	87.1
Time under $100,000	17.5	18.2	35.7	1.8	12.4	14.2
Time $100,000 and over	62.7	25.2	87.9	13.1	12.4	25.5
Foreign	57.5	14.7	72.2	8.6	10.3	18.9
Total interest-bearing deposits	180.9	199.6	380.5	31.1	126.9	158.0
Borrowed funds:						
Securities sold, not yet purchased	(15.2)	0.5	(14.7)	(5.6)	(0.9)	(6.5)
Federal funds purchased and security repurchase agreements	17.2	43.9	61.1	(4.5)	35.9	31.4
Commercial paper	3.0	3.4	6.4	(0.8)	2.8	2.0
FHLB advances and other borrowings:						
One year or less	12.1	7.3	19.4	(0.5)	3.5	3.0
Over one year	(4.0)	1.1	(2.9)	(0.1)	(0.1)	(0.2)
Long-term debt	44.5	10.2	54.7	6.0	24.6	30.6
Total borrowed funds	57.6	66.4	124.0	(5.5)	65.8	60.3
Total interest-bearing liabilities	$ 238.5	266.0	504.5	25.6	192.7	218.3

Change in taxable-equivalent net interest income	$ 408.1	(1.5)	406.6	160.2	40.1	200.3

(1) Taxable-equivalent income used where applicable.
(2) Net of unearned income and fees, net of related costs. Loans include nonaccrual and restructured loans.

In the analysis of interest changes due to volume and rate, changes due to the volume/rate variance are allocated to volume with the following exceptions: when volume and rate both increase, the variance is allocated proportionately to both volume and rate; when the rate increases and volume decreases, the variance is allocated to the rate.

Provisions for Credit Losses

The provision for loan losses is the amount of expense that, based on our judgment, is required to maintain the allowance for loan losses at an adequate level. The provision for unfunded lending commitments is used to maintain the allowance for unfunded lending commitments at an adequate level. In determining adequate levels of the allowances, we perform periodic evaluations of the Company s various portfolios, the levels of actual charge-offs, and statistical trends and other economic factors. See Credit Risk Management on page 77 for more information on how we determine the appropriate level for the allowances for loan and lease losses and unfunded lending commitments.

For the year 2006, the provision for loan losses was $72.6 million, compared to $43.0 million for 2005 and $44.1 million for 2004. Net loan and lease charge-offs increased from $25 million in 2005 to $46 million in 2006. Both the increased net charge-offs and provisions reflect the Company s increased size after the Amegy acquisition. In addition, the higher provision for 2006 reflects the increased provisioning resulting from $4.5 billion of loan growth in 2006. In the fourth quarter, we incurred a loss on an equipment lease related to an alleged accounting fraud at a water bottling company; our NBA affiliate had a $17.1 million participation in this lease. We recorded a charge-off of approximately $10.9 million during the fourth quarter related to this lease.

The lower provisions for both 2005 and 2004 reflect improvements in various credit quality factors used in determining the appropriate level of the allowance for loan losses, including decreased levels of criticized and classified loans. Including the provision for unfunded lending commitments, the total provision for credit losses was $73.8 million for 2006, $46.4 million for 2005, and $44.5 million for 2004. From period to period, the amounts of unfunded lending commitments may be subject to sizeable fluctuation due to changes in the timing and volume of loan originations and associated funding.

Noninterest Income

Noninterest income represents revenues that the Company earns for products and services that have no interest rate or yield associated with them. Noninterest income for 2006 comprised 23.6% of taxable-equivalent revenues compared to 24.0% for 2005 and 26.7% for 2004. Schedule 8 presents a comparison of the major components of noninterest income for the past three years.

The increases in total and individual categories of noninterest income for 2006 compared to 2005 were mainly due to the Amegy acquisition. Significant changes and trends in noninterest income categories not resulting from the Amegy acquisition are discussed as follows.

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SCHEDULE 8

NONINTEREST INCOME

(Amounts in millions)	2006	Percent change	2005	Percent change	2004
Service charges and fees on deposit accounts	$ 166.7	29.4 %	$ 128.8	(2.2)%	$ 131.7
Loan sales and servicing income	54.2	(30.3)	77.8	(1.6)	79.1
Other service charges, commissions and fees	166.8	49.9	111.3	18.9	93.6
Trust and wealth management income	27.5	26.1	21.8	(22.1)	28.0
Income from securities conduit	32.2	(8.0)	35.0	(0.6)	35.2
Dividends and other investment income	39.9	33.0	30.0	(5.7)	31.8
Market making, trading and nonhedge derivative income	18.5	17.8	15.7	(10.8)	17.6
Equity securities gains (losses), net	17.8	1,469.2	(1.3)	86.7	(9.8)
Fixed income securities gains, net	6.4	700.0	0.8	(68.0)	2.5
Other	21.2	24.7	17.0	(22.0)	21.8
Total	$ 551.2	26.2 %	$ 436.9	1.3 %	$ 431.5

Noninterest income for 2006 increased $114.3 million or 26.2% compared to 2005. The largest components of this increase, excluding the impact of the Amegy acquisition, was in net equity securities gains, which were $17.8 million in 2006 compared with net losses of $1.3 million in 2005 and net gains from fixed income securities, which increased $5.6 million. Noninterest income for 2005 increased $5.4 million or 1.3% compared to 2004. The most significant changes were in other service charges, commissions and fees which increased $17.7 million and equity securities losses which decreased $8.5 million.

Service charges and fees on deposit accounts increased significantly in 2006 and declined moderately in 2005. The increase for 2006 was mainly as a result of the acquisition of Amegy. However, deposit service charges and fees increased in each quarter of 2006, reflecting the Company s efforts to promote treasury management services to its customers, including NetDeposit remote deposit capture services. The 2005 decrease was mainly caused by higher earnings credits on commercial deposit accounts as market interest rates rose.

Loan sales and servicing income includes revenues from securitizations of loans as well as from revenues that we earn through servicing loans that have been sold to third parties. For 2006 loan sales and servicing income decreased 30.3% compared to 2005. The decrease was due to no small business loan securitization sale transactions in 2006, lower servicing fees from lower loan balances, and $7.1 million in retained interest write downs. These write downs resulted primarily from higher than expected loan prepayments and changes in the interest rate environment as determined from our periodic evaluation of beneficial interests as required by EITF 99-20. For 2005, loan sales and servicing income decreased 1.6% compared to 2004. The decrease was mainly due to decreased gains from the sale of conforming residential loans sold servicing released and from the sale of home equity credit lines. See Note 6 of the Notes to Consolidated Financial Statements for additional information on the Company s securitization programs.

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Other service charges, commissions, and fees, which is comprised of fiscal agent fees, Automated Teller Machine (ATM) fees, insurance commissions, bankcard merchant fees, debit card interchange fees and other miscellaneous fees, increased $55.5 million, or 49.9% from 2005, which was up 18.9% from 2004. The 2006 increase was primarily due to the Amegy acquisition. The increase for 2005 included $3.7 million of fees earned by Amegy. Other significant increases for 2005 included increases in debit card interchange fees resulting from increased volumes, increased letter of credit fees and customer swap fees, and increased fees from the Company s municipal finance business.

Trust and wealth management income for 2006 increased 26.1% compared to 2005, which was down 22.1% compared to 2004. The increase for 2006 in fees is from the Amegy acquisition and increased fees from organic growth in the trust and wealth management business, including growth related to our Contango wealth management and associated trust business, as well as growth in the Amegy trust and wealth management business. Excluding the Amegy acquisition, trust and wealth management income for 2006 increased 4.1% compared to 2005.

Income from securities conduit represents fees that we receive from Lockhart, a QSPE securities conduit, in return for liquidity management, an interest rate agreement, and administrative services that Zions Bank provides to the entity in accordance with a servicing agreement. The 8.0% decrease in income for 2006 compared to 2005 resulted from lower servicing fees on the investment holdings in Lockhart s securities portfolio. See Liquidity Management Actions on page 93 and Note 6 of the Notes to Consolidated Financial Statements for further information regarding securitizations and Lockhart.

Dividends and other investment income consist of revenue from the Company s bank-owned life insurance program, dividends on securities holdings, and equity in earnings from other investments. Revenue from bank-owned life insurance programs was $26.6 million in 2006, $18.9 million in 2005, and $18.5 million in 2004. The increase for 2006 is due to Amegy. Revenues from investments include dividends on Federal Home Loan Bank (FHLB), Federal Reserve Bank stock, and equity earnings in unconsolidated affiliates and were $13.3 million in 2006, $11.1 million in 2005, and $13.3 million in 2004.

Market making, trading and nonhedge derivative income consists of the following:

SCHEDULE 9

MARKET MAKING, TRADING AND NONHEDGE DERIVATIVE INCOME

(Amounts in millions)	2006	Percent change	2005	Percent change	2004
Market making and trading income	$ 17.9	9.8%	$ 16.3	(4.7)%	$ 17.1
Nonhedge derivative income	0.6	200.0	(0.6)	(220.0)	0.5
Total	$ 18.5		$ 15.7		$ 17.6

Market making and trading income increased $1.6 million or 9.8% as compared to 2005. Excluding Amegy, market making and trading income decreased $5.2 million during 2006 mainly due to a decision made to close our London trading office in the fourth quarter of 2005 and reduce

the amount of the Company s trading assets in response to margin pressures. Trading revenue for 2005

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declined mainly due to lower margins from the odd-lot electronic bond trading business. Nonhedge derivative income was $0.6 million for 2006 compared to a loss of $0.6 million in 2005, which included losses of $0.9 million from two ineffective cash flow hedges.

Net equity securities gains in 2006 were $17.8 million as compared to net losses of $1.3 million in 2005 and $9.8 million in 2004. The increase was primarily due to $19.7 million of net gains on venture capital investments recognized in 2006. Net of related minority interest of $10.0 million, income taxes and other expenses, venture capital investments contributed $4.1 million to net income in 2006, compared to losses of $2.2 million for 2005 and $4.5 million for 2004.

Other noninterest income for 2006 was $21.2 million, compared to $17.0 million for 2005, and $21.8 million for 2004. The increase in 2006 was primarily due to the acquisition of Amegy and NetDeposit related revenue from scanner sales. Other noninterest income for 2004 included $5.3 million of litigation settlements.

Noninterest Expense

Noninterest expense for 2006 increased 31.4% over 2005, which was 9.7% higher than in 2004. The percentage changes are impacted by the acquisition of Amegy, $20.5 million of merger related expenses, and debt extinguishment costs of $7.3 million in 2006. Schedule 10 summarizes the major components of noninterest expense and provides a comparison of the components over the past three years. The increases in total and individual categories of noninterest expense for 2006 compared to 2005 were mainly due to the Amegy acquisition. Significant changes and trends in noninterest expense categories not resulting from the Amegy acquisition are discussed as follows.

SCHEDULE 10

NONINTEREST EXPENSE

(Amounts in millions)	2006	Percent change	2005	Percent change	2004
Salaries and employee benefits	$ 751.7	31.0 %	$ 573.9	8.0%	$ 531.3
Occupancy, net	99.6	28.7	77.4	5.0	73.7
Furniture and equipment	88.7	30.1	68.2	3.6	65.8
Legal and professional services	40.1	15.2	34.8	7.4	32.4
Postage and supplies	33.1	23.0	26.9	4.7	25.7
Advertising	26.5	23.8	21.4	8.6	19.7
Debt extinguishment cost	7.3				
Impairment losses on long-lived assets	1.3	(58.1)	3.1	342.9	0.7
Restructuring charges		(100.0)	2.4	118.2	1.1
Merger related expense	20.5	521.2	3.3		
Amortization of core deposit and other intangibles	43.0	154.4	16.9	19.9	14.1
Provision for unfunded lending commitments	1.2	(64.7)	3.4	580.0	0.5
Other	217.4	20.0	181.1	14.5	158.2

Total	$ 1,330.4	31.4 %	$ 1,012.8	9.7%	$ 923.2

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The Company s efficiency ratio was 56.9% for 2006 compared to 55.7% for 2005 and 57.2% for 2004.

Salary costs for 2006 increased 31.0% over 2005, which were up 8.0% from 2004. The increases for 2006 and 2005 resulted primarily from the acquisition of Amegy, and from increased incentive plan costs and additional staffing related to the build out of our wealth management business, NetDeposit, and to other business expansion. The increase for 2006 also included increased share-based compensation expense of approximately $22.6 million, mainly related to the adoption of SFAS 123R. Employee benefits for 2006 increased 26.8% from 2005 which increased 7.5% from 2004. The increase for 2006 resulted primarily from the acquisition of Amegy. The increase in employee benefits for 2005 is mainly the result of increased contributions to our profit sharing plan and increased employee matching contributions to our 401(k) plan. The profit sharing plan was enhanced as a replacement for a broad-based employee stock option plan that was discontinued in 2005. Salaries and employee benefits are shown in greater detail in Schedule 11.

SCHEDULE 11

SALARIES AND EMPLOYEE BENEFITS

(Dollar amounts in millions)	**2006**	**Percent change**	**2005**	**Percent change**	**2004**
Salaries and bonuses	$ 641.1	31.7%	$ 486.7	8.1%	$ 450.2
Employee benefits:					
Employee health and insurance	31.4	10.2	28.5	1.1	28.2
Retirement	37.8	35.0	28.0	23.9	22.6
Payroll taxes and other	41.4	34.9	30.7	1.3	30.3
Total benefits	110.6	26.8	87.2	7.5	81.1
Total salaries and employee benefits	$ 751.7	31.0%	$ 573.9	8.0%	$ 531.3
Full-time equivalent employees (FTEs) at December 31	10,618	5.1%	10,102	25.9%	8,026

Legal and professional services increased 15.2% when compared to 2005, which were up 7.4% from 2004. The increase in 2006 was primarily the result of the acquisition of Amegy and the ongoing consulting and contract IT professional costs related to the planned CB&T systems conversion. The increases in 2005 were primarily a result of additional consulting services associated with various ongoing projects relating to systems conversions and upgrades.

Merger related expenses for 2006 and 2005 are mainly incremental costs associated with the integration and system conversions of Amegy. See Note 3 of the Notes to Consolidated Financial Statements for additional information on merger related expenses.

The $26.1 million increase in amortization of core deposit and other intangibles is mainly related to the Amegy acquisition.

Other noninterest expense grew 20.0% over the amount in 2005, which was up 14.5% from 2004. The increase for 2006 resulted primarily from the acquisition of Amegy. The increase in 2005 resulted from higher bankcard expenses due to increased activity, increased operational losses which were unusually low for 2004, increased scanner costs for the NetDeposit product, increased data processing costs and travel expense resulting from the Company s major systems projects, and increased fidelity insurance premiums.

Impairment Losses on Goodwill

During the fourth quarter of 2006 and 2005, the Company completed the annual goodwill impairment analysis as required by SFAS 142 and concluded there was no impairment on the goodwill balances.

As previously disclosed, during the third quarter of 2004, the Company made the decision to reorganize the operations at Zions Bank International Ltd. (formerly Van der Moolen UK Ltd.) (ZBI) as a result of disappointing operating performance. The decision resulted in terminating the Euro-denominated bond trading operations and downsizing the U.S. dollar-denominated bond trading operations. This reorganization also resulted in restructuring charges in 2004 of $1.0 million, an impairment write-down of goodwill of $0.6 million and impairment of other intangibles of $0.2 million. During the fourth quarter of 2005, the Company closed the London office of ZBI and recognized restructuring charges of $2.4 million and an impairment write-down of goodwill of $0.6 million.

Foreign Operations

Zions Bank and Amegy both operate foreign branches in Grand Cayman, Grand Cayman Islands, B.W.I. The branches only accept deposits from qualified customers. While deposits in these branches are not subject to Federal Reserve Board reserve requirements or Federal Deposit Insurance Corporation insurance requirements, there are no federal or state income tax benefits to the Company or any customers as a result of these operations.

Foreign deposits at December 31, 2006, 2005, and 2004 totaled $2.6 billion, $2.2 billion and $0.4 billion, respectively, and averaged $2.1 billion for 2006, $0.7 billion for 2005, and $0.3 billion for 2004. All of these foreign deposits were related to domestic customers of the banks. See Schedule 30 on page 73 for foreign loans outstanding.

In addition to the Grand Cayman branch, Zions Bank, through its wholly-owned subsidiary ZBI, had an office in the United Kingdom that provided sales support for its U.S. Dollar trading operations. The office was closed during the fourth quarter of 2005.

Income Taxes

The Company s income tax expense for 2006 was $318.0 million compared to $263.4 million for 2005 and $220.1 million for 2004. The Company s effective income tax rates, including the effects of minority interest, were 35.3% in 2006, 35.4% in 2005, and 35.2% in 2004. See Note 15 of the Notes to Consolidated Financial Statements for more information on income taxes.

In 2004, the Company signed an agreement that confirmed and implemented its award of a $100 million allocation of tax credit authority under the Community Development Financial Institutions Fund set up by the U.S. Government. Under the program, Zions has invested $90 million as of December 31, 2006, in a wholly-owned subsidiary, which makes qualifying loans and investments. In

return, Zions receives federal income tax credits that will be recognized over seven years, including the year in which the funds were invested in the subsidiary. Zions invested $60 million in its subsidiary in 2004, an additional $20 million in 2005, and another $10 million during 2006. Zions expects to fund the remaining $10 million during 2007. Income tax expense was reduced by $4.5 million for 2006, $4.0 million for 2005, and $3.0 million for 2004 as result of these tax credits. We expect that we will be able to reduce the Company s federal income tax payments by a total of $39 million over the life of this award, which is expected to be the years 2004 through 2013.

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BUSINESS SEGMENT RESULTS

The Company manages its banking operations and prepares management reports with a primary focus on geographical area. Segments, other than the Other segment that are presented in the following discussion are based on geographical banking operations. The Other segment includes the Parent, nonbank financial service and financial technology subsidiaries, other smaller nonbank operating units, TCBO which was opened during the fourth quarter of 2005 and is not yet significant, and eliminations of intercompany transactions.

Operating segment information is presented in the following discussion and in Note 22 of the Notes to Consolidated Financial Statements. The accounting policies of the individual segments are the same as those of the Company. The Company allocates centrally provided services to the business segments based upon estimated or actual usage of those services.

The Company previously had a program where interest rate swaps were recorded and managed by Zions Bank for the benefit of other banking subsidiaries and hedge income was allocated to the other banking subsidiaries. Starting in 2003, new interest rate swaps were recorded directly by the banking subsidiaries. For 2006, the amount of hedge income allocated (from) to Zions Bank on hedges remaining from the previous program was $0.6 million compared to $(0.2) million in 2005 and $(15.4) million in 2004. In the following schedules presenting operating segment information, the hedge income allocated to participating banking subsidiaries and the hedge income recognized directly by these banking subsidiaries are presented as separate line items.

Zions Bank and Subsidiaries

Zions Bank is headquartered in Salt Lake City, Utah and is primarily responsible for conducting the Company s operations in Utah and Idaho. Zions Bank is the second largest full-service commercial bank in Utah and the 11th largest in Idaho, as measured by deposits booked in the state. Zions Bank also includes some or all of the Company s Capital Markets operations, which include Zions Direct, Inc., fixed income trading, correspondent banking, public finance and trust, and investment advisory, liquidity and hedging services for Lockhart. Contango Capital Advisors, Inc., a wealth management business launched in the latter half of 2004, and Western National Trust Company, which together constitute the Wealth Management Group, are also included in Zions Bank.

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SCHEDULE 12

ZIONS BANK AND SUBSIDIARIES

(In millions)

	2006	2005	2004
CONDENSED INCOME STATEMENT			
Net interest income excluding hedge income	$ 473.9	405.8	340.5
Hedge income (expense) recorded directly at subsidiary	(2.2)	2.3	18.7
Allocated hedge income (expense)	0.6	(0.2)	(15.4)
Net interest income	472.3	407.9	343.8
Noninterest income	263.7	269.2	265.9
Total revenue	736.0	677.1	609.7
Provision for loan losses	19.9	26.0	24.7
Noninterest expense	426.1	391.1	350.4
Impairment loss on goodwill		0.6	0.6
Income before income taxes and minority interest	290.0	259.4	234.0
Income tax expense	98.1	85.4	77.6
Minority interest	0.1	(0.1)	(0.3)
Net income	$ 191.8	174.1	156.7
YEAR-END BALANCE SHEET DATA			
Total assets	$ 14,823	12,651	11,880
Net loans and leases	10,702	8,510	7,876
Allowance for loan losses	108	107	99
Goodwill, core deposit and other intangibles	27	27	30
Noninterest-bearing demand deposits	2,320	1,986	1,606
Total deposits	10,450	9,213	8,192
Common equity	972	836	756

Net income for Zions Bank increased 10.2% to $191.8 million for 2006 compared to $174.1 million for 2005 and $156.7 million for 2004. Results include the Wealth Management group which had after-tax net losses of $7.9 million in 2006, $6.2 million in 2005 and $3.9 million in 2004. Results for 2006 also include allocated interest income from hedges of $0.6 million compared with allocated interest expense of $0.2 million in 2005 and $15.4 million in 2004.

The increase in earnings at Zions Bank for 2006 was driven by a 15.8%, or $64.4 million, increase in net interest income. This increase resulted from strong loan growth of $2.2 billion, strong deposit growth, and an improved net interest margin. Balance sheet growth reflected strong economic conditions in Zions Bank s primary markets, the bank s successful sales efforts, and our decision not to securitize and sell any small business loans in 2006. The net interest margin increased to 3.89% for 2006, compared to 3.68% for 2005 and 3.21% for 2004.

Noninterest income decreased 2.0% to $263.7 million compared to $269.2 million for 2005 and $265.9 million for 2004. Loan sales and servicing income declined $22.6 million as a result of prepayments, margin compression, no small business loan securitization in 2006, and $7.1 million in pretax impairment charges on retained interests as previously discussed. A $9.5 million increase in net gains on equity securities related to venture and other equity investments helped offset this decline, as did debit card interchange fees, which increased $8.7 million in 2006. Service charges increased $5.3 million as a result of increased analysis fees on commercial accounts. Income generated from providing services to Lockhart declined by $2.8 million this year to $32.2 million. Trading income declined by $5.5 million due to the restructuring of trading operations previously discussed.

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Noninterest expense for 2006 increased $35.0 million or 8.9% from 2005. Increases for 2006 included a $15.3 million or 8.7% increase in salaries and benefits, of which $4.6 million was related to the expensing of stock options and restricted stock grants. Debt extinguishment costs related to the early retirement of trust-preferred debt accounted for $7.3 million of the increase. Bankcard expenses increased $4.8 million primarily because of volume increases in debit and credit card transactions.

Year-end deposits for 2006 increased 13.4% from 2005 or $1.2 billion compared to growth of $1.0 billion or 12.5% over 2004. Both the branch network and Internet Banking deposit products have contributed to this growth. In 2006, the mix of deposits improved with noninterest-bearing-demand deposits increasing 16.8%.

SCHEDULE 13

ZIONS BANK AND SUBSIDIARIES

	2006	2005	2004
PERFORMANCE RATIOS			
Return on average assets	1.39%	1.40%	1.29%
Return on average common equity	21.47%	22.22%	21.24%
Efficiency ratio	57.15%	56.95%	56.46%
Net interest margin	3.89%	3.68%	3.21%
OTHER INFORMATION			
Full-time equivalent employees	2,687	2,517	2,563
Domestic offices:			
Traditional branches	107	104	102
Banking centers in grocery stores	29	30	31
Foreign office	1	1	2
Total offices	137	135	135
ATMs	165	178	183

Nonperforming assets for Zions Bank were $17.1 million at December 31, 2006, down from $22.1 million at December 31, 2005. Accruing loans past due 90 days or more increased to $8.5 million compared to $4.4 million at year-end 2005. Net loan and lease charge-offs for 2006 were $18.9 million compared with $17.5 million for 2005. For 2006, Zions Bank s loan loss provision was $19.9 million compared with $26.0 million for 2005 and $24.7 million for 2004. The decreased provision for 2006 was mainly driven by improved credit quality.

During 2004, Zions Investment Securities, Inc. introduced its new Zions Direct online trading platform and in 2005 the name of the company was changed to Zions Direct, Inc. Through Zions Direct, retail customers can execute online stock and bond trades for $10.95 per trade. Zions Direct customers also have access to more than 9,000 mutual funds and the ability to search one of the largest inventories of bonds through Bonds for Less. Zions Direct provides convenient access, free education and real-time information for executing trades, monitoring portfolios and conducting research.

During 2006, Zions Bank ranked as Utah s top SBA 7(a) lender for the thirteenth consecutive year and ranked first in Idaho s Boise District for the fifth consecutive year. Zions Bank also expanded its National Real Estate Group, which makes real estate-secured loans at low loan-to-value ratios to small businesses across the country. The Group funded nearly $1.2 billion in new loans in both 2006 and 2005. Also, in 2006 Zions Bank expanded its treasury management product offering and has seen positive results from this expansion.

California Bank & Trust

CB&T is a full service commercial bank headquartered in San Diego and is the fourteenth largest financial institution in California measured by deposits booked in the state. It operates 91 traditional branch offices and 7 loan production offices throughout the state, and 7 loan production offices in other states. CB&T manages its branch network by a regional structure, allowing decision-making to remain as close as possible to the customer. These regions include San Diego, Los Angeles, Orange County, San Francisco, Sacramento, and the Central Valley. In addition to the regional structure, core businesses are managed functionally. These functions include retail banking, corporate and commercial banking, construction and commercial real estate financing, and SBA lending. CB&T plans to continue its emphasis on relationship banking providing commercial, real estate and consumer lending, depository services, international banking, cash management, and community development services.

SCHEDULE 14

CALIFORNIA BANK & TRUST

(In millions)	2006	2005	2004
CONDENSED INCOME STATEMENT			
Net interest income excluding hedge income	$ 487.9	451.0	396.4
Hedge income (expense) recorded directly at subsidiary	(18.5)	0.4	13.8
Net interest income	469.4	451.4	410.2
Noninterest income	80.7	75.0	77.5
Total revenue	550.1	526.4	487.7
Provision for loan losses	15.0	9.9	10.7
Noninterest expense	244.6	243.9	234.1
Income before income taxes	290.5	272.6	242.9
Income tax expense	117.9	109.7	97.1
Net income	$ 172.6	162.9	145.8
YEAR-END BALANCE SHEET DATA			
Total assets	$ 10,416	10,896	10,186
Net loans and leases	8,092	7,671	7,132
Allowance for loan losses	95	91	86
Goodwill, core deposit and other intangibles	400	408	419
Noninterest-bearing demand deposits	2,824	2,952	2,652

Total deposits	8,410	8,896	8,329
Common equity	1,123	1,072	1,031

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Net income increased 6.0% to $172.6 million in 2006 compared with $162.9 million for 2005, and $145.8 million for 2004. Loan growth, interest rate risk management, credit management, customer profitability management and expense control were the primary contributors to the positive results of operations for 2006 while the loss of deposits and higher cost of funding negatively impacted earnings.

Net interest income for 2006 increased $18.0 million or 4.0% to $469.4 million compared to $451.4 million for 2005 and $410.2 million for 2004. CB&T s net interest margin was 4.81%, 4.91% and 4.78% for 2006, 2005 and 2004, respectively. The bank strives to maintain a slightly asset-sensitive position with regard to interest rate risk management, meaning that when market interest rates rise, the net interest margin increases. Net interest income in 2006 increased although the margin narrowed due to the flattening yield curve and the competitive pressures of increases in interest rates on deposits and increased reliance on higher cost nondeposit funding.

The efficiency ratio has improved in each of the past three years: 44.4% for 2006, 46.3% for 2005, and 47.9% for 2004. CB&T continues to focus on managing operating efficiencies and costs in relation to revenue. Total revenue was $550.1 million, an increase of 4.5% over $526.4 million in 2005. Noninterest expense grew to $244.6 million, an increase of 0.3% over $243.9 million in 2005. This modest expense growth was primarily due to strong controls over staffing levels and other variable expenses. Full-time equivalent employees declined to 1,659 in December, 2006 from 1,673 in December, 2005.

SCHEDULE 15

CALIFORNIA BANK & TRUST

	2006	2005	2004
PERFORMANCE RATIOS			
Return on average assets	1.59%	1.59%	1.51%
Return on average common equity	15.40%	15.53%	14.52%
Efficiency ratio	44.42%	46.29%	47.93%
Net interest margin	4.81%	4.91%	4.78%
OTHER INFORMATION			
Full-time equivalent employees	1,659	1,673	1,722
Domestic offices:			
Traditional branches	91	91	91
ATMs	103	105	107

Net loans and leases grew $421 million or 5.5% in 2006 compared to 2005. Commercial, small business, real estate construction, and commercial real estate loans grew modestly in 2006 compared to 2005, while consumer loans declined and residential real estate loans remained flat. CB&T does not expect overall loan growth in 2007 to be much different than 2006 given the tenuous business climate particularly in its primary Southern California commercial and residential real estate construction and development markets.

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Total deposits declined $486 million or 5.5% in 2006 compared to 2005. The ratio of noninterest-bearing deposits to total deposits was 33.6% and 33.2% for 2006 and 2005, respectively. Reflecting general banking conditions in California, CB&T was challenged in its deposit growth in 2006 and expects to continue to be challenged in 2007.

Nonperforming assets were $27.1 million at December 31, 2006 compared to $20.0 million one year ago. Nonperforming assets to net loans and other real estate owned at December 31, 2006 was 0.34% compared to 0.26% at December 31, 2005. Net loan and lease charge-offs were $10.9 million for 2006 compared with $4.9 million for 2005. CB&T s loan loss provision was $15.0 million for 2006 compared to $9.9 million for 2005. The ratio of the allowance for loan losses to nonperforming loans was 360.3% at year-end 2006 compared to 512.1% at year-end 2005. The ratio of the allowance for loan losses to net loans and leases was 1.17% and 1.18% at December 31, 2006 and 2005, respectively.

Amegy Corporation

Amegy is headquartered in Houston, Texas and operates Amegy Bank, the tenth largest full-service commercial bank in Texas measured by deposits in the state. Amegy operates 64 full-service traditional branches and 8 banking centers in grocery stores in the Houston metropolitan area, and five traditional branches and one loan production office in the Dallas metropolitan area. During the first quarter of 2007, Amegy continued its expansion into the attractive markets in Texas by opening its first location in San Antonio, a loan production office to serve the Central Texas market. Amegy also operates a broker-dealer (Amegy Investments, Inc), a trust and private bank group, and a mortgage bank (Amegy Mortgage Company).

The Texas economy is the eleventh largest in the world with two-thirds of all state economic activity occurring in Amegy s primary markets in Houston and Dallas. Houston has a diversified economy driven by energy, healthcare, and international business, and in 2006 it added 75,500 jobs for a total of 2.5 million jobs. Dallas also has a diversified economy driven by the telecommunications, distribution and transportation industries. The Dallas-Fort Worth metroplex added 80,400 jobs in 2006 for a total of 2.9 million jobs. The San Antonio economy added approximately 27,000 jobs in 2006 based on strong growth in healthcare, tourism, and trade with a growing manufacturing sector. In 2007 Amegy plans to continue its expansion in its primary markets and plans to open 5 traditional branches in the Houston market, 2 in the Dallas/Ft. Worth metroplex, and expand its branch presence in San Antonio.

In 2006, Amegy completed its first full year as part of the Company with record levels of performance in many key areas. Net income for the year was $87.0 million. The earnings performance for the year was driven by record levels of loan growth and strong asset quality, record level of fee income in three of the fee income groups, and improved levels of net interest margin and operating expenses.

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SCHEDULE 16

AMEGY CORPORATION

(In millions)

	2006	2005 (1)
CONDENSED INCOME STATEMENT		
Net interest income excluding hedge income	$ 306.0	25.5
Hedge expense recorded directly at subsidiary	(1.3)	
Net interest income	304.7	25.5
Noninterest income	114.9	9.0
Total revenue	419.6	34.5
Provision for loan losses	7.8	
Noninterest expense	283.5	23.7
Income before income taxes and minority interest	128.3	10.8
Income tax expense	39.5	3.3
Minority interest	1.8	
Net income	$ 87.0	7.5
YEAR-END BALANCE SHEET DATA		
Total assets	$ 10,366	9,350
Net loans and leases	6,352	5,389
Allowance for loan losses	55	49
Goodwill, core deposit and other intangibles	1,370	1,404
Noninterest-bearing demand deposits	2,245	2,145
Total deposits	7,329	6,905
Common equity	1,805	1,768

(1) Amounts for 2005 include Amegy at December 31, 2005 and for the month of December 2005. Amegy was acquired on December 3, 2005.

Net income was driven by net interest income. The net interest margin for the year was 4.36%, resulting from strong loan growth, improved liability pricing, and an improved earning asset mix. Amegy maintained its strong sales culture, and 2006 was a record year in terms of new loan originations with period end loan growth of $963 million, or a 17.9% increase. The increase in the loan portfolio was primarily focused in the commercial and industrial sector with continued growth in the real estate lending groups; this growth reflected the vibrant Texas economy, and a stable and talented corps of relationship officers.

Noninterest income was $114.9 million for the year. Record fee income was produced by each of the Capital Markets, Letter of Credit, and Retail Services groups.

During 2006, Amegy converted to the Zions operating systems platform. Noninterest expenses were impacted by costs related to merger, severance, and conversion activities. Total operating expenses for 2006 were $283.5 million. Merger related expenses incurred by Amegy during the year were $11.7 million. In addition to the merger related expenses incurred, amortization of core deposit and other intangibles totaled $28.4 million in 2006. Reflecting the impact of these merger related items, the efficiency ratio was 66.8% for 2006.

Deposits grew by 6.1% or $424 million to $7.3 billion, including $100 million of growth in noninterest-bearing demand deposits.

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SCHEDULE 17

AMEGY CORPORATION

	2006	2005 (1)
PERFORMANCE RATIOS		
Return on average assets	0.93%	0.97%
Return on average common equity	4.87%	4.97%
Efficiency ratio	66.79%	68.03%
Net interest margin	4.36%	4.44%
OTHER INFORMATION		
Full-time equivalent employees	1,599	1,983
Domestic offices:		
Traditional branches	69	67
Banking centers in grocery stores	8	15
Foreign office	1	1
Total offices	78	83
ATMs	129	130

(1) Amounts for 2005 include Amegy at December 31, 2005 and for the month of December 2005. Amegy was acquired on December 3, 2005.

Fiscal year 2006 was also one of Amegy s best years in terms of asset quality. Net loan and lease charge-offs for the year were $1.9 million or 3 basis points of average outstanding loans. Nonaccrual loans and other real estate owned totaled $15.7 million at year-end, or 0.25% of net loans and other real estate owned.

National Bank of Arizona

NBA, the Company s financial institution responsible for operations in Arizona, is the fourth largest full-service commercial bank in Arizona measured by deposits booked in the state. NBA s branch network is presently located in 36 communities spanning the entire state. Arizona s population growth continues to be one the strongest in the entire country and the state is currently ranked the 16th largest in the nation by population. Population in the state exceeds 6.2 million residents; the Phoenix and Tucson metropolitan areas together comprise over 80% of the state s population over 5 million people. The Arizona job market remains robust and among the leaders in the nation with annual growth nearing the 5% mark in 2006, which followed a year in which the growth exceeded this level.

Housing has fueled a large portion of the Arizona economy for a number of years. The housing market did experience a 23% decline in 2006 as related to residential building permits, yet this followed a number of years with double digit increases. Despite the slowdown in the residential housing market, residential building permits were 66,062 for 2006, compared to 85,835 in 2005, and 87,834 in 2004. The commercial real estate activity was not affected by the softening of the residential activity, as vacancy rates declined and per square foot rental rates increased in the metropolitan marketplaces. NBA is a recognized leader in real estate lending in Arizona.

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The continued strength of the Arizona economy, coupled with the consistent growth in the balance sheet of NBA, produced another record breaking year in terms of financial performance and growth for the organization. With the exception of housing starts, home prices, and the rate of existing home sales, most drivers of the Arizona economy are expected to remain strong for 2007. Thus the Arizona economy is expected to grow in 2007, but more moderately than in the prior two years.

SCHEDULE 18

NATIONAL BANK OF ARIZONA

(In millions)	2006	2005	2004
CONDENSED INCOME STATEMENT			
Net interest income excluding hedge income	$ 218.4	186.2	139.0
Hedge income (expense) recorded directly at subsidiary	(3.3)	1.3	0.6
Allocated hedge income (expense)	(0.2)	0.1	4.0
Net interest income	214.9	187.6	143.6
Noninterest income	25.4	21.5	21.6
Total revenue	240.3	209.1	165.2
Provision for loan losses	16.3	5.2	4.0
Noninterest expense	103.0	97.8	86.1
Income before income taxes	121.0	106.1	75.1
Income tax expense	47.8	42.1	29.7
Net income	$ 73.2	64.0	45.4
YEAR-END BALANCE SHEET DATA			
Total assets	$ 4,599	4,209	3,592
Net loans and leases	4,066	3,698	3,129
Allowance for loan losses	43	38	33
Goodwill, core deposit and other intangibles	66	68	70
Noninterest-bearing demand deposits	1,160	1,191	930
Total deposits	3,695	3,599	3,046
Common equity	346	299	264

NBA s net income in 2006 rose by 14.4% to $73.2 million, following a 41.0% growth in earnings in 2005. Net interest income increased by 14.6% compared to 2005. This increase in the net interest income is directly attributable to the growth in earning assets, coupled with consistent strength in the net interest margin. The net interest margin declined only slightly to 5.20% in 2006 compared to 5.23% in 2005. The compression primarily reflects the increased reliance on noncore deposit funding to support continued loan growth. Funding costs for core deposits grew at a slightly slower pace than the increase in yields on earning assets.

Noninterest income increased 18.1% in 2006 compared to 2005, which in turn was essentially flat compared to 2004. The noninterest income increases were primarily impacted by increases in business and personal credit and debit card activity, favorable changes in service charge rates, and gains in venture fund investments. Despite the slowdown experienced in the residential real estate market, fees charged for residential

development and construction lending remained flat compared to 2005.

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Noninterest expense increased at a moderate pace of 5.3% over 2005 to $103.0 million, yielding positive operating leverage for 2006. Commensurate with the expanding opportunities and revenue growth in the retail and commercial banking areas, NBA expanded its work force to take advantage of these opportunities. Increased compensation costs related to these additional employees comprised the largest component of the noninterest expense increases. Overall NBA s efficiency ratio improved nearly 4% in 2006 to 42.8% compared to 46.7% for 2005.

SCHEDULE 19

NATIONAL BANK OF ARIZONA

	2006	2005	2004
PERFORMANCE RATIOS			
Return on average assets	1.66%	1.65%	1.40%
Return on average common equity	22.49%	22.62%	18.34%
Efficiency ratio	42.81%	46.67%	51.94%
Net interest margin	5.20%	5.23%	4.83%
OTHER INFORMATION			
Full-time equivalent employees	911	871	843
Domestic offices:			
Traditional branches	53	53	54
ATMs	55	53	53

Net loans grew by $368 million for the year, an increase of 10.0%, following an 18.2% growth rate in 2005. Combined, the two years growth totals $937 million. Loan growth remained strong in all sectors of NBA s loan portfolio; the strongest growth was in the commercial real estate area, reflecting the Arizona economy s strength. Deposit growth, totaling $96 million, slowed appreciably when compared to 2005. Competitive pressures and the entry of new financial institutions into the market during the year placed pressure on attracting and retaining deposits.

Nonperforming assets increased to $12.2 million at December 31, 2006, compared to $9.7 million at year-end 2005. Nonaccrual loans at December 31, 2006 equaled $6.0 million, down slightly when compared to balances at the end of 2005. Net charge-offs were $11.3 million for 2006, compared with $0.4 million for 2005. The provision for loan losses significantly increased to $16.3 million compared to $5.2 million in the prior year. This is a direct result of a single lease charge-off totaling approximately $10.9 million on a $17.1 million participation in an equipment lease, as previously disclosed on page 45 in the discussion of Provisions for Credit Losses . The remaining $6.2 million value of the impaired asset is included in NBA s nonperforming assets at the end of the year.

Nevada State Bank

NSB, headquartered in Las Vegas, Nevada, is the fourth largest full-service commercial bank in the state measured by deposits booked in the state. Travel and tourism, construction and mining are Nevada s three largest industries. All sectors of the Silver State economy continue to enjoy sound economic conditions, although indicators point to Nevada having a more modest expansion in the

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near future due to some slowdown in the residential housing sector. Nevada should continue to rank among the better performing state economies, with job growth that is well above the national level. The economic outlook for the state remains positive for 2007.

SCHEDULE 20

NEVADA STATE BANK

(In millions)	2006	2005	2004
CONDENSED INCOME STATEMENT			
Net interest income excluding hedge income	$ 201.4	170.4	140.2
Hedge income (expense) recorded directly at subsidiary	(3.9)	0.9	1.7
Allocated hedge income			1.5
Net interest income	197.5	171.3	143.4
Noninterest income	31.2	31.0	31.6
Total revenue	228.7	202.3	175.0
Provision for loan losses	8.7	(0.4)	3.4
Noninterest expense	110.8	106.2	96.4
Income before income taxes	109.2	96.5	75.2
Income tax expense	38.1	33.4	25.8
Net income	$ 71.1	63.1	49.4
YEAR-END BALANCE SHEET DATA			
Total assets	$ 3,916	3,681	3,339
Net loans and leases	3,214	2,846	2,549
Allowance for loan losses	35	28	29
Goodwill, core deposit and other intangibles	21	22	22
Noninterest-bearing demand deposits	1,002	1,122	1,032
Total deposits	3,401	3,171	2,951
Common equity	273	244	220

NSB s net income for 2006 increased 12.7% to $71.1 million compared to $63.1 million for 2005 and $49.4 million for 2004. Net interest income grew to $197.5 million, or 15.3% from 2005, which was up 19.5% from 2004. The increase for both years reflects the growth in the loan portfolio, along with improved net interest margins for the last two years.

Noninterest income for 2006 was $31.2 million, which was essentially unchanged compared to both 2005 and 2004.

12.1

657.2

587.5

69.7

11.9

Other
7.0

7.8

(0.8
)

14.1

15.9

(1.8
)

Total gross profit
819.1

744.9

74.2

10.0

1,619.0

1,452.3

166.7

11.5

Selling, general, and administrative expenses
568.7

524.6

(44.1
)

(8.4
)

1,126.3

1,025.3

(101.0
)

(9.9
)
Depreciation and amortization
32.1

26.2

(5.9
)

60.8

51.8

(9.0

)

Other income, net
(3.8
)

(3.7
)

0.1

(5.1
)

(11.7
)

(6.6
)

Operating income
222.1

197.8

24.3

12.3

437.0

386.9

50.1

12.9

Non-operating income (expense) items:

Floorplan interest expense
(14.2
)

(13.3
)

(0.9
)

(27.4
)

(26.5
)

(0.9
)

Other interest expense
(21.6
)

(21.3
)

(0.3
)

(43.0
)

(42.9
)

(0.1
)

Interest income
—

0.1

(0.1
)

0.1

0.1

—

Other income, net
0.5

0.9

(0.4
)

1.6

2.4

(0.8
)

Income from continuing operations before income taxes
$
186.8

$
164.2

$
22.6

13.8

$
368.3

$
320.0

$
48.3

15.1

Retail vehicle unit sales:

New vehicle
85,245

80,554

4,691

5.8

163,805

151,777

12,028

7.9

Used vehicle
57,370

52,656

4,714

9.0

115,994

104,792

11,202

10.7

142,615

133,210

9,405

7.1

279,799

256,569

23,230

9.1

Revenue per vehicle retailed:

New vehicle
$
34,815

$
33,976

$
839

2.5

$
35,026

$
34,033

$
993

2.9

Used vehicle
$
19,332

$
18,784

$
548

2.9

$
18,994

$
18,464

$
530

2.9

Gross profit per vehicle retailed:

New vehicle
$
1,949

$
2,006

$
(57
)

(2.8
)

$
2,000

$
2,026

$
(26
)

(1.3
)
Used vehicle
$
1,593

$
1,685

$
(92
)

(5.5
)

$
1,672

$
1,732

$
(60
)

(3.5
)
Finance and insurance
$
1,526

$
1,392

$
134

9.6

$
1,520

$
1,395

$
125

9.0

Total variable operations[2]
$
3,332

$

3,271

$
61

1.9

$
3,384

$
3,300

$
84

2.5

[(1)] Total variable operations includes new vehicle, used vehicle (retail and wholesale), and finance and insurance results.
[(2)] Total variable operations gross profit per vehicle retailed is calculated by dividing the sum of new vehicle, retail used vehicle, and finance and insurance gross profit by total retail vehicle unit sales.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015 (%)	2014 (%)	2015 (%)	2014 (%)
Revenue mix percentages:				
New vehicle	56.8	57.2	56.4	56.4
Used vehicle	23.3	22.6	23.7	23.3
Parts and service	14.9	14.7	15.0	15.0
Finance and insurance, net	4.2	3.9	4.2	3.9
Other	0.8	1.6	0.7	1.4
Total	100.0	100.0	100.0	100.0
Gross profit mix percentages:				
New vehicle	20.3	21.7	20.2	21.2
Used vehicle	11.1	12.0	12.0	12.6
Parts and service	41.2	40.4	40.6	40.5
Finance and insurance	26.6	24.9	26.3	24.6
Other	0.8	1.0	0.9	1.1
Total	100.0	100.0	100.0	100.0
Operating items as a percentage of revenue:				
Gross profit:				
New vehicle	5.6	5.9	5.7	6.0
Used vehicle - retail	8.2	9.0	8.8	9.4
Parts and service	43.4	42.7	43.2	42.7
Total	15.7	15.6	15.9	15.9
Selling, general, and administrative expenses	10.9	11.0	11.1	11.2
Operating income	4.3	4.1	4.3	4.2
Operating items as a percentage of total gross profit:				
Selling, general, and administrative expenses	69.4	70.4	69.6	70.6
Operating income	27.1	26.6	27.0	26.6

	June 30, 2015	2014
Days supply:		
New vehicle (industry standard of selling days)	63 days	59 days
Used vehicle (trailing calendar month days)	36 days	36 days

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Same Store Operating Data

We have presented below our operating results on a same store basis, which reflect the results of our stores for the identical months in each period presented in the comparison, commencing with the first full month in which the store was owned by us.

	Three Months Ended June 30,				Six Months Ended June 30,			
($ in millions, except per vehicle data)	2015	2014	Variance Favorable / (Unfavorable)	% Variance	2015	2014	Variance Favorable / (Unfavorable)	% Variance
Revenue:								
New vehicle	$2,866.7	$2,723.2	$ 143.5	5.3	$5,558.7	$5,138.2	$ 420.5	8.2
Retail used vehicle	1,069.0	982.9	86.1	8.8	2,129.8	1,922.5	207.3	10.8
Wholesale	105.1	92.9	12.2	13.1	202.5	196.6	5.9	3.0
Used vehicle	1,174.1	1,075.8	98.3	9.1	2,332.3	2,119.1	213.2	10.1
Finance and insurance, net	212.1	184.4	27.7	15.0	415.5	355.9	59.6	16.7
Total variable operations[1]	4,252.9	3,983.4	269.5	6.8	8,306.5	7,613.2	693.3	9.1
Parts and service	751.4	700.3	51.1	7.3	1,474.1	1,366.6	107.5	7.9
Other	44.7	79.2	(34.5)		75.0	119.7	(44.7)	
Total revenue	$5,049.0	$4,762.9	$ 286.1	6.0	$9,855.6	$9,099.5	$ 756.1	8.3
Gross profit:								
New vehicle	$158.2	$160.9	$ (2.7)	(1.7)	$312.5	$306.0	$ 6.5	2.1
Retail used vehicle	88.7	88.0	0.7	0.8	188.4	180.0	8.4	4.7
Wholesale	(0.3)	0.7	(1.0)		0.9	2.2	(1.3)	
Used vehicle	88.4	88.7	(0.3)	(0.3)	189.3	182.2	7.1	3.9
Finance and insurance	212.1	184.4	27.7	15.0	415.5	355.9	59.6	16.7
Total variable operations[1]	458.7	434.0	24.7	5.7	917.3	844.1	73.2	8.7
Parts and service	324.3	298.6	25.7	8.6	634.4	583.2	51.2	8.8
Other	6.7	7.8	(1.1)		13.4	15.6	(2.2)	
Total gross profit	$789.7	$740.4	$ 49.3	6.7	$1,565.1	$1,442.9	$ 122.2	8.5
Retail vehicle unit sales:								
New vehicle	83,027	80,011	3,016	3.8	159,946	150,687	9,259	6.1
Used vehicle	55,780	52,218	3,562	6.8	113,133	103,892	9,241	8.9
	138,807	132,229	6,578	5.0	273,079	254,579	18,500	7.3
Revenue per vehicle retailed:								
New vehicle	$34,527	$34,035	$ 492	1.4	$34,754	$34,098	$ 656	1.9
Used vehicle	$19,165	$18,823	$ 342	1.8	$18,826	$18,505	$ 321	1.7
Gross profit per vehicle retailed:								
New vehicle	$1,905	$2,011	$ (106)	(5.3)	$1,954	$2,031	$ (77)	(3.8)
Used vehicle	$1,590	$1,685	$ (95)	(5.6)	$1,665	$1,733	$ (68)	(3.9)
Finance and insurance	$1,528	$1,395	$ 133	9.5	$1,522	$1,398	$ 124	8.9
Total variable operations[2]	$3,307	$3,277	$ 30	0.9	$3,356	$3,307	$ 49	1.5

(1) Total variable operations includes new vehicle, used vehicle (retail and wholesale), and finance and insurance results.
(2) Total variable operations gross profit per vehicle retailed is calculated by dividing the sum of new vehicle, retail used vehicle, and finance and insurance gross profit by total retail vehicle unit sales.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2015 (%)	2014 (%)	2015 (%)	2014 (%)
Revenue mix percentages:				
New vehicle	56.8	57.2	56.4	56.5
Used vehicle	23.3	22.6	23.7	23.3
Parts and service	14.9	14.7	15.0	15.0
Finance and insurance, net	4.2	3.9	4.2	3.9
Other	0.8	1.6	0.7	1.3
Total	100.0	100.0	100.0	100.0
Gross profit mix percentages:				
New vehicle	20.0	21.7	20.0	21.2
Used vehicle	11.2	12.0	12.1	12.6
Parts and service	41.1	40.3	40.5	40.4
Finance and insurance	26.9	24.9	26.5	24.7
Other	0.8	1.1	0.9	1.1
Total	100.0	100.0	100.0	100.0
Operating items as a percentage of revenue:				
Gross profit:				
New vehicle	5.5	5.9	5.6	6.0
Used vehicle - retail	8.3	9.0	8.8	9.4
Parts and service	43.2	42.6	43.0	42.7
Total	15.6	15.5	15.9	15.9

New Vehicle

($ in millions, except per vehicle data)	Three Months Ended June 30, 2015	2014	Variance Favorable / (Unfavorable)	% Variance	Six Months Ended June 30, 2015	2014	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Revenue	$2,967.8	$2,736.9	$230.9	8.4	$5,737.4	$5,165.5	$571.9	11.1
Gross profit	$166.1	$161.6	$4.5	2.8	$327.6	$307.5	$20.1	6.5
Retail vehicle unit sales	85,245	80,554	4,691	5.8	163,805	151,777	12,028	7.9
Revenue per vehicle retailed	$34,815	$33,976	$839	2.5	$35,026	$34,033	$993	2.9
Gross profit per vehicle retailed	$1,949	$2,006	$(57)	(2.8)	$2,000	$2,026	$(26)	(1.3)
Gross profit as a percentage of revenue	5.6%	5.9%			5.7%	6.0%		
Days supply (industry standard of selling days)	63 days	59 days						

	Three Months Ended June 30, 2015	2014	Variance Favorable / (Unfavorable)	% Variance	Six Months Ended June 30, 2015	2014	Variance Favorable / (Unfavorable)	% Variance
Same Store:								
Revenue	$2,866.7	$2,723.2	$143.5	5.3	$5,558.7	$5,138.2	$420.5	8.2
Gross profit	$158.2	$160.9	$(2.7)	(1.7)	$312.5	$306.0	$6.5	2.1
Retail vehicle unit sales	83,027	80,011	3,016	3.8	159,946	150,687	9,259	6.1
Revenue per vehicle retailed	$34,527	$34,035	$492	1.4	$34,754	$34,098	$656	1.9
Gross profit per vehicle retailed	$1,905	$2,011	$(106)	(5.3)	$1,954	$2,031	$(77)	(3.8)
Gross profit as a percentage of revenue	5.5%	5.9%			5.6%	6.0%		

Second Quarter 2015 compared to Second Quarter 2014

Same store new vehicle revenue increased during the three months ended June 30, 2015, as compared to the same period in 2014, as a result of an increase in same store unit volume and an increase in revenue per new vehicle retailed. The increase in same store unit volume was primarily due to replacement demand and improved market conditions, including increased consumer borrowing and confidence and lower average fuel prices. New product offerings from automotive manufacturers also favorably impacted same store unit volume.

Same store revenue per new vehicle retailed during the three months ended June 30, 2015, benefited from an increase in the average selling prices for Domestic and Import vehicles, partially offset by a decrease in the average selling price for Premium Luxury vehicles. Same store revenue per new vehicle retailed also benefited from a shift in mix away from Import vehicles, which have relatively lower average selling prices. Revenue per new vehicle retailed also benefited from lower average fuel prices, which caused a shift in mix toward larger vehicles, such as trucks and sport utility vehicles, that have relatively higher average selling prices.

Same store gross profit per new vehicle retailed decreased during the three months ended June 30, 2015, as compared to the same period in 2014, primarily due to a competitive environment in the Import segment, as well as a shift in mix within the Premium Luxury segment toward new products with lower average gross profit per vehicle retailed.

First Six Months 2015 compared to First Six Months 2014

Same store new vehicle revenue increased during the six months ended June 30, 2015, as compared to the same period in 2014, as a result of an increase in same store unit volume and an increase in revenue per new vehicle retailed. The increase in same store unit volume was primarily due to replacement demand and improved market conditions, including increased consumer borrowing and confidence and lower average fuel prices. New product offerings from automotive manufacturers also favorably impacted same store unit volume.

Same store revenue per new vehicle retailed during the six months ended June 30, 2015, benefited from an increase in the average selling prices for Domestic and Import vehicles, partially offset by a decrease in the average selling price for Premium Luxury vehicles. Same store revenue per new vehicle retailed also benefited from a shift in mix toward Premium Luxury vehicles, which have relatively higher average selling prices.

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Same store gross profit per new vehicle retailed decreased during the six months ended June 30, 2015, as compared to the same period in 2014, primarily due to a shift in mix within the Premium Luxury segment toward new products with lower average gross profit per vehicle retailed, as well as a competitive environment in the Import segment.

Net New Vehicle Inventory Carrying Benefit

The following table details net new vehicle inventory carrying benefit, consisting of new vehicle floorplan interest expense, net of floorplan assistance earned (amounts received from manufacturers specifically to support store financing of new vehicle inventory). Floorplan assistance is accounted for as a component of new vehicle gross profit.

	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions)	2015	2014	Variance	2015	2014	Variance
Floorplan assistance	$29.4	$26.7	$2.7	$56.1	$50.7	$5.4
New vehicle floorplan interest expense	(13.4)	(12.6)	(0.8)	(25.8)	(25.3)	(0.5)
Net new vehicle inventory carrying benefit	$16.0	$14.1	$1.9	$30.3	$25.4	$4.9

Second Quarter 2015 compared to Second Quarter 2014

The net new vehicle inventory carrying benefit increased during the three months ended June 30, 2015, as compared to the same period in 2014 primarily due to an increase in floorplan assistance. Floorplan assistance increased due to higher new vehicle sales and an increase in the floorplan assistance rate per unit.

First Six Months 2015 compared to First Six Months 2014

The net new vehicle inventory carrying benefit increased during the six months ended June 30, 2015, as compared to the same period in 2014 primarily due to an increase in floorplan assistance. Floorplan assistance increased due to higher new vehicle sales and an increase in the floorplan assistance rate per unit.

New Vehicle Inventories

Our new vehicle inventories were $2.6 billion or 63 days supply at June 30, 2015, as compared to new vehicle inventories of $2.3 billion or 54 days supply at December 31, 2014 and $2.2 billion or 59 days supply at June 30, 2014. We had 71,733 units in new vehicle inventory at June 30, 2015, 67,424 units at December 31, 2014, and 65,244 units at June 30, 2014.

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Used Vehicle

($ in millions, except per vehicle data)	Three Months Ended June 30, 2015	2014	Variance Favorable / (Unfavorable)	% Variance	Six Months Ended June 30, 2015	2014	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Retail revenue	$1,109.1	$989.1	$120.0	12.1	$2,203.2	$1,934.9	$268.3	13.9
Wholesale revenue	107.2	93.2	14.0	15.0	206.3	197.1	9.2	4.7
Total revenue	$1,216.3	$1,082.3	$134.0	12.4	$2,409.5	$2,132.0	$277.5	13.0
Retail gross profit	$91.4	$88.7	$2.7	3.0	$193.9	$181.5	$12.4	6.8
Wholesale gross profit	(0.3)	0.6	(0.9)		0.9	2.1	(1.2)	
Total gross profit	$91.1	$89.3	$1.8	2.0	$194.8	$183.6	$11.2	6.1
Retail vehicle unit sales	57,370	52,656	4,714	9.0	115,994	104,792	11,202	10.7
Revenue per vehicle retailed	$19,332	$18,784	$548	2.9	$18,994	$18,464	$530	2.9
Gross profit per vehicle retailed	$1,593	$1,685	$(92)	(5.5)	$1,672	$1,732	$(60)	(3.5)
Gross profit as a percentage of revenue	8.2 %	9.0 %			8.8 %	9.4 %		
Days supply (trailing calendar month days)	36 days	36 days						

	Three Months Ended June 30, 2015	2014	Variance Favorable / (Unfavorable)	% Variance	Six Months Ended June 30, 2015	2014	Variance Favorable / (Unfavorable)	% Variance
Same Store:								
Retail revenue	$1,069.0	$982.9	$86.1	8.8	$2,129.8	$1,922.5	$207.3	10.8
Wholesale revenue	105.1	92.9	12.2	13.1	202.5	196.6	5.9	3.0
Total revenue	$1,174.1	$1,075.8	$98.3	9.1	$2,332.3	$2,119.1	$213.2	10.1
Retail gross profit	$88.7	$88.0	$0.7	0.8	$188.4	$180.0	$8.4	4.7
Wholesale gross profit	(0.3)	0.7	(1.0)		0.9	2.2	(1.3)	
Total gross profit	$88.4	$88.7	$(0.3)	(0.3)	$189.3	$182.2	$7.1	3.9
Retail vehicle unit sales	55,780	52,218	3,562	6.8	113,133	103,892	9,241	8.9
Revenue per vehicle retailed	$19,165	$18,823	$342	1.8	$18,826	$18,505	$321	1.7
Gross profit per vehicle retailed	$1,590	$1,685	$(95)	(5.6)	$1,665	$1,733	$(68)	(3.9)
Gross profit as a percentage of revenue	8.3 %	9.0 %			8.8 %	9.4 %		

Second Quarter 2015 compared to Second Quarter 2014

Same store retail used vehicle revenue increased during the three months ended June 30, 2015, as compared to the same period in 2014, due to an increase in same store unit volume and an increase in revenue per used vehicle retailed. Same store unit volume benefited from an increase in sales of certified pre-owned vehicles, as well as an increase in trade-in volume associated with new vehicle sales, which resulted in increased used vehicle inventory available for sale.

Same store revenue per used vehicle retailed benefited primarily from an increase in the average selling price of used vehicles for all three segments and an increase in sales of certified pre-owned vehicles, which have relatively higher average selling prices. These benefits were partially offset by a shift in mix away from Premium Luxury vehicles, which have relatively higher average selling prices.

Same store gross profit per used vehicle retailed decreased during the three months ended June 30, 2015, as compared to the same period in 2014, primarily due to a decrease in the gross profit per vehicle retailed for Premium Luxury and Import vehicles.

First Six Months 2015 compared to First Six Months 2014

Same store retail used vehicle revenue increased during the six months ended June 30, 2015, as compared to the same period in 2014, due to an increase in same store unit volume and an increase in revenue per used vehicle retailed. Same store unit volume benefited from an increase in sales of certified pre-owned vehicles, as well as an increase in trade-in volume associated with new vehicle sales, which resulted in increased used vehicle inventory available for sale.

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Same store revenue per used vehicle retailed benefited primarily from an increase in the average selling price of used vehicles for all three segments and an increase in sales of certified pre-owned vehicles, which have relatively higher average selling prices.

Same store gross profit per used vehicle retailed decreased during the six months ended June 30, 2015, as compared to the same period in 2014, primarily due to a decrease in the gross profit per vehicle retailed for Premium Luxury and Import vehicles.

Used Vehicle Inventories

Used vehicle inventories were $494.7 million or 36 days supply at June 30, 2015, compared to $437.6 million or 38 days supply at December 31, 2014, and $420.3 million or 36 days supply at June 30, 2014.

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Parts and Service

($ in millions)	Three Months Ended June 30, 2015	2014	Variance Favorable / (Unfavorable)	% Variance	Six Months Ended June 30, 2015	2014	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Revenue	$777.8	$704.8	$ 73.0	10.4	$1,521.2	$1,375.8	$ 145.4	10.6
Gross Profit	$337.2	$300.8	$ 36.4	12.1	$657.2	$587.5	$ 69.7	11.9
Gross profit as a percentage of revenue	43.4 %	42.7 %			43.2 %	42.7 %		
Same Store:								
Revenue	$751.4	$700.3	$ 51.1	7.3	$1,474.1	$1,366.6	$ 107.5	7.9
Gross Profit	$324.3	$298.6	$ 25.7	8.6	$634.4	$583.2	$ 51.2	8.8
Gross profit as a percentage of revenue	43.2 %	42.6 %			43.0 %	42.7 %		

Parts and service revenue is primarily derived from vehicle repairs paid directly by customers or via reimbursement from manufacturers and others under warranty programs, as well as from wholesale parts sales and collision businesses.

Second Quarter 2015 compared to Second Quarter 2014

During the three months ended June 30, 2015, same store parts and service gross profit increased as compared to the same period in 2014, primarily due to increases in gross profit associated with customer-pay service of $9.6 million, warranty of $5.9 million, the preparation of vehicles for sale of $5.7 million, and collision business of $3.2 million. Customer-pay service gross profit benefited from improved operational execution and increased volume. Warranty gross profit benefited from an increase in volume, driven in part by elevated manufacturer recall activity. Gross profit associated with the preparation of vehicles for sale benefited from higher new and used vehicle unit volume. Gross profit associated with our collision business benefited from increased volume referred by automotive insurance providers as well as an increase in the average repair value.

First Six Months 2015 compared to First Six Months 2014

During the six months ended June 30, 2015, same store parts and service gross profit increased as compared to the same period in 2014, primarily due to increases in gross profit associated with warranty of $15.3 million, customer-pay service of $14.5 million, the preparation of vehicles for sale of $12.4 million, and collision business of $6.1 million.

Warranty gross profit benefited from an increase in volume, driven primarily by elevated manufacturer recall activity. Customer-pay service gross profit benefited from improved operational execution and increased volume. Gross profit associated with the preparation of vehicles for sale benefited from higher new and used vehicle unit volume. Gross profit associated with our collision business benefited from increased volume referred by automotive insurance providers as well as an increase in the average repair value.

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Finance and Insurance

	Three Months Ended June 30,				Six Months Ended June 30,			
($ in millions, except per vehicle data)	2015	2014	Variance Favorable / (Unfavorable)	% Variance	2015	2014	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Revenue and gross profit	$217.7	$185.4	$32.3	17.4	$425.3	$357.8	$67.5	18.9
Gross profit per vehicle retailed	$1,526	$1,392	$134	9.6	$1,520	$1,395	$125	9.0
Same Store:								
Revenue and gross profit	$212.1	$184.4	$27.7	15.0	$415.5	$355.9	$59.6	16.7
Gross profit per vehicle retailed	$1,528	$1,395	$133	9.5	$1,522	$1,398	$124	8.9

Second Quarter 2015 compared to Second Quarter 2014

Same store finance and insurance revenue and gross profit increased during the three months ended June 30, 2015, as compared to the same period in 2014, due to increases in same store finance and insurance revenue and gross profit per vehicle retailed and new and used vehicle unit volume.

Same store finance and insurance revenue and gross profit per vehicle retailed benefited from a shift in mix toward and an increase in product penetration for more profitable vehicle service contracts, an increase in revenue and gross profit per transaction associated with arranging customer financing, and more customers financing vehicles through our stores.

First Six Months 2015 compared to First Six Months 2014

Same store finance and insurance revenue and gross profit increased during the six months ended June 30, 2015, as compared to the same period in 2014, due to increases in same store finance and insurance revenue and gross profit per vehicle retailed and new and used vehicle unit volume.

Same store finance and insurance revenue and gross profit per vehicle retailed benefited from a shift in mix toward and an increase in product penetration for more profitable vehicle service contracts, an increase in revenue and gross profit per transaction associated with arranging customer financing, and an increase in amounts financed per transaction.

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Segment Results

In the following table, revenue and segment income of our reportable segments is reconciled to consolidated revenue and consolidated operating income, respectively.

	Three Months Ended June 30,				Six Months Ended June 30,			
($ in millions)	2015	2014	Variance Favorable / (Unfavorable)	% Variance	2015	2014	Variance Favorable / (Unfavorable)	% Variance
Revenue:								
Domestic	$1,764.2	$1,604.9	$ 159.3	9.9	$3,429.9	$3,077.9	$ 352.0	11.4
Import	1,795.0	1,717.8	77.2	4.5	3,473.7	3,267.2	206.5	6.3
Premium Luxury	1,633.0	1,431.9	201.1	14.0	3,196.2	2,738.3	457.9	16.7
Total	5,192.2	4,754.6	437.6	9.2	10,099.8	9,083.4	1,016.4	11.2
Corporate and other	32.1	33.9	(1.8)	(5.3)	68.7	68.6	0.1	0.1
Total consolidated revenue	$5,224.3	$4,788.5	$ 435.8	9.1	$10,168.5	$9,152.0	$ 1,016.5	11.1
Segment income[1]:								
Domestic	$84.9	$70.5	$ 14.4	20.4	$164.2	$134.3	$ 29.9	22.3
Import	80.1	77.5	2.6	3.4	155.1	142.9	12.2	8.5
Premium Luxury	94.4	85.8	8.6	10.0	188.5	169.1	19.4	11.5
Total	259.4	233.8	25.6	10.9	507.8	446.3	61.5	13.8
Corporate and other	(51.5)	(49.3)	(2.2)		(98.2)	(85.9)	(12.3)	
Floorplan interest expense	14.2	13.3	(0.9)		27.4	26.5	(0.9)	
Operating income	$222.1	$197.8	$ 24.3	12.3	$437.0	$386.9	$ 50.1	12.9

[1] Segment income represents income for each of our reportable segments and is defined as operating income less floorplan interest expense.

Retail new vehicle unit sales:								
Domestic	27,871	26,182	1,689	6.5	53,621	49,997	3,624	7.2
Import	40,279	39,685	594	1.5	77,193	74,610	2,583	3.5
Premium Luxury	17,095	14,687	2,408	16.4	32,991	27,170	5,821	21.4
	85,245	80,554	4,691	5.8	163,805	151,777	12,028	7.9

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Domestic

The Domestic segment operating results included the following:

	Three Months Ended June 30,				Six Months Ended June 30,			
($ in millions)	2015	2014	Variance Favorable / (Unfavorable)	% Variance	2015	2014	Variance Favorable / (Unfavorable)	% Variance
Revenue	$1,764.2	$1,604.9	$ 159.3	9.9	$3,429.9	$3,077.9	$ 352.0	11.4
Segment income	$84.9	$70.5	$ 14.4	20.4	$164.2	$134.3	$ 29.9	22.3
Retail new vehicle unit sales	27,871	26,182	1,689	6.5	53,621	49,997	3,624	7.2

Second Quarter 2015 compared to Second Quarter 2014

Domestic revenue increased during the three months ended June 30, 2015, as compared to the same period in 2014, primarily due to an increase in new and used vehicle unit volume and an increase in revenue per new and used vehicle retailed. The increase in new vehicle unit volume was due in part to replacement demand and improved market conditions, including increased consumer borrowing and confidence. New product offerings from automotive manufacturers also favorably impacted new vehicle unit volume. The increase in used vehicle unit volume was primarily due to an increase in sales of certified pre-owned vehicles, as well as an increase in trade-in volume associated with new vehicle sales, which resulted in increased used vehicle inventory available for sale. Revenue per new vehicle retailed benefited from lower average fuel prices, which caused a shift in mix toward larger vehicles, such as trucks and sport utility vehicles, that have relatively higher average selling prices.

Domestic segment income increased during the three months ended June 30, 2015, as compared to the same period in 2014, primarily due to an increase in finance and insurance revenue and gross profit, which benefited from an increase in finance and insurance revenue and gross profit per vehicle retailed and higher vehicle unit volume. Domestic segment income also benefited from increases in parts and service gross profit and new vehicle gross profit. Increases in Domestic segment income were partially offset by an increase in variable expenses.

First Six Months 2015 compared to First Six Months 2014

Domestic revenue increased during the six months ended June 30, 2015, as compared to the same period in 2014, primarily due to an increase in new and used vehicle unit volume and an increase in revenue per new and used vehicle retailed. The increase in new vehicle unit volume was due in part to replacement demand and improved market conditions, including increased consumer borrowing and confidence. New product offerings from automotive manufacturers also favorably impacted new vehicle unit volume. The increase in used vehicle unit volume was primarily due to an increase in sales of certified pre-owned vehicles, as well as an increase in trade-in volume associated with new vehicle sales, which resulted in increased used vehicle inventory available for sale. Revenue per new vehicle retailed benefited from lower average fuel prices, which caused a shift in mix toward larger vehicles, such as trucks and sport utility vehicles, that have relatively higher average selling prices.

Domestic segment income increased during the six months ended June 30, 2015, as compared to the same period in 2014, primarily due to an increase in finance and insurance revenue and gross profit, which benefited from an increase in finance and insurance revenue and gross profit per vehicle retailed and higher vehicle unit volume. Domestic segment income also benefited from increases in parts and service gross profit and new vehicle gross profit. Increases in Domestic segment income were partially offset by an increase in variable expenses.

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Import

The Import segment operating results included the following:

	Three Months Ended June 30,				Six Months Ended June 30,			
($ in millions)	2015	2014	Variance Favorable / (Unfavorable)	% Variance	2015	2014	Variance Favorable / (Unfavorable)	% Variance
Revenue	$1,795.0	$1,717.8	$ 77.2	4.5	$3,473.7	$3,267.2	$ 206.5	6.3
Segment income	$80.1	$77.5	$ 2.6	3.4	$155.1	$142.9	$ 12.2	8.5
Retail new vehicle unit sales	40,279	39,685	594	1.5	77,193	74,610	2,583	3.5

Second Quarter 2015 compared to Second Quarter 2014

Import revenue increased during the three months ended June 30, 2015, as compared to the same period in 2014, primarily due to an increase in new and used vehicle unit volume and an increase in revenue per new and used vehicle retailed. The increase in new vehicle unit volume was primarily due to replacement demand and improved market conditions, including increased consumer borrowing and confidence. New product offerings from automotive manufacturers also favorably impacted new vehicle unit volume. The increase in used vehicle unit volume was primarily due to an increase in trade-in volume associated with new vehicle sales, which resulted in increased used vehicle inventory available for sale, as well as an increase in sales of certified pre-owned vehicles. Revenue per new vehicle retailed benefited from lower average fuel prices, which caused a shift in mix toward larger vehicles, such as trucks and sport utility vehicles, that have relatively higher average selling prices.

Import segment income increased during the three months ended June 30, 2015, as compared to the same period in 2014, primarily due to an increase in finance and insurance revenue and gross profit, which benefited from an increase in finance and insurance revenue and gross profit per vehicle retailed and higher vehicle unit volume. Import segment income also benefited from an increase in parts and service gross profit. Increases in Import segment income were partially offset by an increase in variable expenses and a decrease in new vehicle gross profit.

First Six Months 2015 compared to First Six Months 2014

Import revenue increased during the six months ended June 30, 2015, as compared to the same period in 2014, primarily due to an increase in new and used vehicle unit volume and an increase in revenue per new and used vehicle retailed. The increase in new vehicle unit volume was primarily due to replacement demand and improved market conditions, including increased consumer borrowing and confidence. New product offerings from automotive manufacturers also favorably impacted new vehicle unit volume. The increase in used vehicle unit volume was primarily due to an increase in trade-in volume associated with new vehicle sales, which resulted in increased used vehicle inventory available for sale, as well as an increase in sales of certified pre-owned vehicles. Revenue per new vehicle retailed benefited from lower average fuel prices, which caused a shift in mix toward larger vehicles, such as trucks and sport utility vehicles, that have relatively higher average selling prices.

Import segment income increased during the six months ended June 30, 2015, as compared to the same period in 2014, primarily due to an increase in finance and insurance revenue and gross profit, which benefited from higher vehicle unit volume and an increase in finance and insurance revenue and gross profit per vehicle retailed. Import segment income also benefited from an increase in parts and service gross profit. Increases in Import segment income were partially offset by an increase in variable expenses and a decrease in new vehicle gross profit.

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Premium Luxury

The Premium Luxury segment operating results included the following:

($ in millions)	Three Months Ended June 30, 2015	2014	Variance Favorable / (Unfavorable)	% Variance	Six Months Ended June 30, 2015	2014	Variance Favorable / (Unfavorable)	% Variance
Revenue	$1,633.0	$1,431.9	$ 201.1	14.0	$3,196.2	$2,738.3	$ 457.9	16.7
Segment income	$94.4	$85.8	$ 8.6	10.0	$188.5	$169.1	$ 19.4	11.5
Retail new vehicle unit sales	17,095	14,687	2,408	16.4	32,991	27,170	5,821	21.4

Second Quarter 2015 compared to Second Quarter 2014

Premium Luxury revenue increased during the three months ended June 30, 2015, as compared to the same period in 2014, primarily due to an increase in new and used vehicle unit volume. The increase in new vehicle unit volume was due in part to replacement demand and improved market conditions, including increased consumer borrowing and confidence. New product offerings from automotive manufacturers also favorably impacted new vehicle unit volume. The increase in used vehicle unit volume was primarily due to an increase in sales of certified pre-owned vehicles, as well as an increase in trade-in volume associated with new vehicle sales, which resulted in increased used vehicle inventory available for sale. New and used vehicle unit volume also benefited from the acquisitions we completed in the fourth quarter of 2014 and the first and second quarters of 2015.

Premium Luxury segment income increased during the three months ended June 30, 2015, as compared to the same period in 2014, primarily due to an increase in parts and service gross profit and an increase in finance and insurance revenue and gross profit, which benefited from an increase in finance and insurance revenue and gross profit per vehicle retailed and higher vehicle unit volume. Premium Luxury segment income also benefited from the acquisitions noted above. Increases in Premium Luxury segment income were partially offset by an increase in variable expenses.

First Six Months 2015 compared to First Six Months 2014

Premium Luxury revenue increased during the six months ended June 30, 2015, as compared to the same period in 2014, primarily due to an increase in new and used vehicle unit volume. The increase in new vehicle unit volume was due in part to replacement demand and improved market conditions, including increased consumer borrowing and confidence. New product offerings from automotive manufacturers also favorably impacted new vehicle unit volume. The increase in used vehicle unit volume was primarily due to an increase in sales of certified pre-owned vehicles, as well as an increase in trade-in volume associated with new vehicle sales, which resulted in increased used vehicle inventory available for sale. New and used vehicle unit volume also benefited from the acquisitions we completed in the fourth quarter of 2014 and the first and second quarters of 2015.

Premium Luxury segment income increased during the six months ended June 30, 2015, as compared to the same period in 2014, primarily due to an increase in parts and service gross profit and an increase in finance and insurance revenue and gross profit, which benefited from higher vehicle unit volume and an increase in finance and insurance revenue and gross profit per vehicle retailed. Premium Luxury segment income also benefited from the acquisitions noted above. Increases in Premium Luxury segment income were partially offset by an increase in variable expenses.

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Selling, General, and Administrative Expenses

Our Selling, General, and Administrative ("SG&A") expenses consist primarily of compensation, including store and corporate salaries, commissions, and incentive-based compensation, as well as advertising (net of reimbursement-based manufacturer advertising rebates), and store and corporate overhead expenses, which include occupancy costs, legal, accounting, and professional services, and general corporate expenses. The following table presents the major components of our SG&A expenses.

	Three Months Ended June 30,				Six Months Ended June 30,			
($ in millions)	2015	2014	Variance Favorable / (Unfavorable)	% Variance	2015	2014	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Compensation	$365.4	$339.4	$ (26.0)	(7.7)	$734.7	$668.3	$ (66.4)	(9.9)
Advertising	49.2	44.3	(4.9)	(11.1)	91.2	84.9	(6.3)	(7.4)
Store and corporate overhead	154.1	140.9	(13.2)	(9.4)	300.4	272.1	(28.3)	(10.4)
Total	$568.7	$524.6	$ (44.1)	(8.4)	$1,126.3	$1,025.3	$ (101.0)	(9.9)
SG&A as a % of total gross profit:								
Compensation	44.6	45.6	100	bps	45.4	46.0	60	bps
Advertising	6.0	5.9	(10)	bps	5.6	5.8	20	bps
Store and corporate overhead	18.8	18.9	10	bps	18.6	18.8	20	bps
Total	69.4	70.4	100	bps	69.6	70.6	100	bps

Second Quarter 2015 compared to Second Quarter 2014

SG&A expenses increased during the three months ended June 30, 2015, as compared to the same period in 2014, primarily due to a performance-driven increase in compensation expense and an increase in store and corporate overhead expenses. As a percentage of total gross profit, SG&A expenses decreased to 69.4% during the three months ended June 30, 2015, from 70.4% in the same period in 2014.

First Six Months 2015 compared to First Six Months 2014

SG&A expenses increased during the six months ended June 30, 2015, as compared to the same period in 2014, primarily due to a performance-driven increase in compensation expense and an increase in store and corporate overhead expenses. As a percentage of total gross profit, SG&A expenses decreased to 69.6% during the six months ended June 30, 2015, from 70.6% in the same period in 2014.

Other Income, Net (included in Operating Income)

During the second quarter of 2015, we recognized gains related to property dispositions of $5.8 million ($3.6 million after-tax), partially offset by a property impairment of $1.7 million ($1.1 million after-tax). During the second quarter of 2014, we recognized a gain related to a legal settlement of $4.0 million ($2.5 million after-tax). During the first quarter of 2014, we recognized a net gain related to business/property dispositions of $8.0 million ($5.0 million after-tax), primarily related to the divestiture of our customer lead distribution business.

Non-Operating Income (Expense)

Floorplan Interest Expense

Second Quarter 2015 compared to Second Quarter 2014

Floorplan interest expense was $14.2 million for the three months ended June 30, 2015, compared to $13.3 million for the same period in 2014. The increase in floorplan interest expense of $0.9 million is primarily the result of higher average vehicle floorplan balances, partially offset by lower negotiated floorplan interest rates.

First Six Months 2015 compared to First Six Months 2014

Floorplan interest expense was $27.4 million for the six months ended June 30, 2015, compared to $26.5 million for the same period in 2014. The increase in floorplan interest expense of $0.9 million is primarily the result of higher

average vehicle floorplan balances, partially offset by lower negotiated floorplan interest rates.

Other Interest Expense

Other interest expense was incurred primarily on borrowings under our outstanding senior unsecured notes, revolving credit facility, commercial paper program, mortgage facility, and term loan facility. Other interest expense for the three and six months ended June 30, 2015, was comparable to the same periods in 2014.

Provision for Income Taxes

Income taxes are based upon our anticipated underlying annual blended federal and state income tax rates adjusted, as necessary, for any other tax matters occurring during the period. As we operate in various states, our effective tax rate is also dependent upon our geographic revenue mix.

Our effective income tax rate was 38.3% for the three months ended June 30, 2015, and 38.7% for the three months ended June 30, 2014.

Our effective income tax rate was 38.4% for the six months ended June 30, 2015, and 38.7% for the six months ended June 30, 2014.

Discontinued Operations

Discontinued operations are related to stores that were sold or terminated prior to January 1, 2014. Results from discontinued operations, net of income taxes, were primarily related to carrying costs for real estate we have not yet sold associated with stores that were closed prior to January 1, 2014.

Liquidity and Capital Resources

We manage our liquidity to ensure access to sufficient funding at acceptable costs to fund our ongoing operating requirements and future capital expenditures while continuing to meet our financial obligations. We believe that our cash and cash equivalents, funds generated through future operations, and amounts available under our revolving credit facility and secured used vehicle floorplan facilities will be sufficient to fund our working capital requirements, service our debt, pay our tax obligations and commitments and contingencies, and meet any seasonal operating requirements for the foreseeable future.

Available Liquidity Resources

We had the following sources of liquidity available:

(In millions)	June 30, 2015	December 31, 2014
Cash and Cash Equivalents	$65.3	$75.4
Revolving Credit Facility [1]	$954.1	$644.4
Secured Used Vehicle Floorplan Facilities [2]	$85.5	$50.2

(1) Based on aggregate borrowings outstanding of $800.0 million and outstanding letters of credit of $45.9 million at June 30, 2015, and aggregate borrowings outstanding of $1.1 billion and outstanding letters of credit of $45.6 million at December 31, 2014. See “Long-Term Debt – Credit Agreement” for additional information. We plan to use the revolving credit facility under our credit agreement as a liquidity backstop for borrowings under the commercial paper program. At June 30, 2015, we had $298.5 million of commercial paper notes outstanding, which in effect reduced the available liquidity under our revolving credit facility by an equal amount. See “Commercial Paper” for additional information.

(2) Based on the eligible used vehicle inventory that could have been pledged as collateral. See “Vehicle Floorplan Payable” for additional information.

In the ordinary course of business, we are required to post performance and surety bonds, letters of credit, and/or cash deposits as financial guarantees of our performance. At June 30, 2015, surety bonds, letters of credit, and cash deposits totaled $94.8 million, including $45.9 million of letters of credit. We do not currently provide cash collateral for outstanding letters of credit.

In February 2014, we filed an automatic shelf registration statement with the SEC that enables us to offer for sale, from time to time and as the capital markets permit, an unspecified amount of common stock, preferred stock, debt securities, warrants, subscription rights, depositary shares, stock purchase contracts, units, and guarantees of debt securities.

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Capital Allocation

Our capital allocation strategy is focused on maximizing stockholder returns. The first priority of our capital allocation strategy is to maintain a strong balance sheet. Second, we invest capital in our business to maintain and upgrade our existing facilities and to build new facilities for existing franchises, as well as for other strategic and technology initiatives. Third, we deploy capital opportunistically to repurchase our common stock and/or debt or to complete dealership acquisitions and/or build facilities for newly awarded franchises. Our capital allocation decisions will be based on factors such as the expected rate of return on our investment, the market price of our common stock versus our view of its intrinsic value, the market price of our debt, the potential impact on our capital structure, our ability to complete dealership acquisitions that meet our market and vehicle brand criteria and return on investment threshold, and limitations set forth in our debt agreements.

Share Repurchases

A summary of shares repurchased under our stock repurchase program authorized by our Board of Directors follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share data)	2015	2014	2015	2014
Shares repurchased	0.8	1.1	0.9	3.6
Aggregate purchase price	$50.0	$64.1	$59.1	$179.8
Average purchase price per share	$62.78	$56.05	$62.41	$50.53

The decision to repurchase shares at any given point in time is based on factors such as the market price of our common stock versus our view of its intrinsic value, the potential impact on our capital structure (including compliance with our 3.75x maximum leverage ratio and other financial covenants in our debt agreements as well as our available liquidity), and the expected return on competing uses of capital such as dealership acquisitions, capital investments in our current businesses, or repurchases of our debt.

Capital Expenditures

The following table sets forth information regarding our capital expenditures:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2015	2014	2015	2014
Purchases of property and equipment, including operating lease buy-outs [1]	$71.2	$52.9	$134.1	$87.8

[1] Includes accrued construction in progress and excludes property acquired under capital leases.

Excluding land purchased for future sites and lease buy-outs, and net of related asset sales, we anticipate that our capital expenditures, including accrued construction in progress, will be approximately $235 million in 2015, primarily related to our store facilities.

Acquisitions and Divestitures

The following table sets forth information regarding cash used in business acquisitions, net of cash acquired, and cash received from business divestitures, net of cash relinquished:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2015	2014	2015	2014
Cash received from (used in) business acquisitions, net	$(45.4)	$—	$(73.1)	$—
Cash received from (used in) business divestitures, net	$—	$(0.2)	$15.7	$9.8

We purchased five stores during the six months ended June 30, 2015. During the second quarter of 2015, we purchased a Mercedes-Benz store in San Jose, California, a Chrysler Dodge Jeep Ram store in Valencia, California, and a Jaguar, Land Rover, and Volvo store in Spokane, Washington. We did not purchase any stores during the six months ended June 30, 2014.

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During the six months ended June 30, 2015, we divested two Import stores. During the six months ended June 30, 2014, we divested our customer lead distribution business, which was reported in the "Corporate and other" category of our segment information.

Cash Dividends

We have not declared or paid any cash dividends on our common stock during our two most recent fiscal years. We do not currently anticipate paying cash dividends for the foreseeable future.

Long-Term Debt and Commercial Paper

The following table sets forth our non-vehicle long-term debt as of June 30, 2015, and December 31, 2014.

(In millions)	June 30, 2015	December 31, 2014
6.75% Senior Notes due 2018	$397.5	$397.1
5.5% Senior Notes due 2020	350.0	350.0
Revolving credit facility due 2019	800.0	1,110.0
Mortgage facility [(1)]	180.7	185.5
Capital leases and other debt	101.9	85.8
	1,830.1	2,128.4
Less: current maturities	(24.6)	(25.0)
Long-term debt, net of current maturities	$1,805.5	$2,103.4

[(1)] The mortgage facility requires monthly principal and interest payments of $1.7 million based on a fixed amortization schedule with a balloon payment of $155.4 million due November 2017.

Senior Unsecured Notes

At June 30, 2015, we had outstanding $397.5 million of 6.75% Senior Notes due 2018, net of debt discount. Interest is payable on April 15 and October 15 of each year. These notes will mature on April 15, 2018.

At June 30, 2015, we had outstanding $350.0 million of 5.5% Senior Notes due 2020. Interest is payable on February 1 and August 1 of each year. These notes will mature on February 1, 2020.

Our senior unsecured notes are guaranteed by substantially all of our subsidiaries.

Credit Agreement

Under our credit agreement, we have a $1.8 billion revolving credit facility that matures on December 3, 2019. The credit agreement also contains an accordion feature that allows us, subject to credit availability and certain other conditions, to increase the amount of the revolving credit facility, together with any added term loans, by up to $500.0 million in the aggregate. As of June 30, 2015, we had borrowings outstanding of $800.0 million under the revolving credit facility. We have a $200.0 million letter of credit sublimit as part of our revolving credit facility. The amount available to be borrowed under the revolving credit facility is reduced on a dollar-for-dollar basis by the cumulative amount of any outstanding letters of credit, which was $45.9 million at June 30, 2015, leaving an additional borrowing capacity under the revolving credit facility of $954.1 million at June 30, 2015.

Funds borrowed under our credit agreement may be used to repay indebtedness, finance acquisitions, and for working capital, capital expenditures, share repurchases, and other general corporate purposes.

Our revolving credit facility provides for a commitment fee on undrawn amounts of 0.20% and various interest rates on borrowings generally at LIBOR plus 1.50%. The interest rate charged for our revolving credit facility is affected by our leverage ratio. For instance, an increase in our leverage ratio from greater than or equal to 2.0x but less than 3.25x to greater than or equal to 3.25x would result in a 12.5 basis point increase in the interest rate.

Borrowings under the credit agreement are guaranteed by substantially all of our subsidiaries.

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Other Long-Term Debt

At June 30, 2015, we had $180.7 million outstanding under a mortgage facility with an automotive manufacturer's captive finance subsidiary that matures on November 30, 2017. The mortgage facility utilizes a fixed interest rate of 5.864% and is secured by 10-year mortgages on certain of our store properties. The mortgage facility requires monthly principal and interest payments of $1.7 million based on a fixed amortization schedule with a balloon payment of $155.4 million due November 2017. Repayment of the mortgage facility is subject to a prepayment penalty.

At June 30, 2015, we had capital lease and other debt obligations of $101.9 million, which are due at various dates through 2034.

Commercial Paper

On May 22, 2015, we established a commercial paper program pursuant to which we may issue short-term, unsecured commercial paper notes on a private placement basis up to a maximum aggregate amount outstanding at any time of $300.0 million. This program provides us with additional short-term financing flexibility and enhances our ability to take advantage of opportunities in the credit markets. The interest rate for the commercial paper notes varies based on market conditions. The maturities of the commercial paper notes may vary, but may not exceed 397 days from the date of issuance. The commercial paper notes are guaranteed by substantially all of our subsidiaries. Proceeds from the issuance of commercial paper notes will be used to repay borrowings under the revolving credit facility, to finance acquisitions and for working capital, capital expenditures, share repurchases and/or other general corporate purposes.

At June 30, 2015, we had $298.5 million of commercial paper notes outstanding with a weighted-average annual interest rate of 0.85% and a weighted-average remaining term of 13 days.

Restrictions and Covenants

Our credit agreement, the indentures for our 6.75% Senior Notes due 2018 and 5.5% Senior Notes due 2020, our vehicle floorplan facilities, and our mortgage facility contain customary financial and operating covenants that place restrictions on us, including our ability to incur additional indebtedness or prepay existing indebtedness, to create liens or other encumbrances, to sell (or otherwise dispose of) assets, and to merge or consolidate with other entities.

Under our credit agreement, we are required to remain in compliance with a maximum leverage ratio and maximum capitalization ratio. The leverage ratio is a contractually defined amount principally reflecting non-vehicle debt divided by a contractually defined measure of earnings with certain adjustments. The capitalization ratio is a contractually defined amount principally reflecting vehicle floorplan payable and non-vehicle debt divided by our total capitalization including vehicle floorplan payable. Under the credit agreement, the maximum leverage ratio is 3.75x and the maximum capitalization ratio is 70.0%. In calculating our leverage and capitalization ratios, we are not required to include letters of credit in the definition of debt (except to the extent of letters of credit in excess of $150.0 million). In addition, in calculating our capitalization ratio, we are permitted to add back to shareholders' equity all goodwill, franchise rights, and long-lived asset impairment charges subsequent to September 30, 2014 plus $1.53 billion. The specific terms of these covenants can be found in our credit agreement, which we filed with our Current Report on Form 8-K on December 4, 2014.

The indentures for our 6.75% Senior Notes due 2018 and 5.5% Senior Notes due 2020 contain certain limited covenants, including limitations on liens and sale and leaseback transactions, but do not contain a restricted payments covenant or a debt incurrence restriction. Our mortgage facility contains covenants regarding maximum cash flow leverage and minimum interest coverage.

Our failure to comply with the covenants contained in our debt agreements could result in the acceleration of all of our indebtedness. Our debt agreements have cross-default provisions that trigger a default in the event of an uncured default under other material indebtedness of AutoNation.

As of June 30, 2015, we were in compliance with the requirements of the financial covenants under our debt agreements. Under the terms of our credit agreement, at June 30, 2015, our leverage ratio and capitalization ratio were as follows:

	June 30, 2015	
	Requirement	Actual
Leverage ratio	≤ 3.75x	2.18x
Capitalization ratio	≤ 70.0%	58.8%

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Both the leverage ratio and the capitalization ratio limit our ability to incur additional non-vehicle debt. The capitalization ratio also limits our ability to incur additional vehicle floorplan indebtedness and repurchase shares.
In the event of a downgrade in our credit ratings, neither the covenants described above nor availability under our credit agreement would be impacted. However, a downgrade in our credit ratings could negatively impact our ability to issue, or the interest rates for, commercial paper notes.

Vehicle Floorplan Payable

Vehicle floorplan payable-trade totaled $2.3 billion at June 30, 2015, and $2.1 billion at December 31, 2014. Vehicle floorplan payable-trade reflects amounts borrowed to finance the purchase of specific new vehicle inventories with manufacturers' captive finance subsidiaries.
Vehicle floorplan payable-non-trade totaled $1.0 billion at June 30, 2015, and $1.0 billion at December 31, 2014, and represents amounts borrowed to finance the purchase of specific new and, to a lesser extent, used vehicle inventories with non-trade lenders, as well as amounts borrowed under our secured used vehicle floorplan facilities, which are primarily collateralized by used vehicle inventories and related receivables. Financing decisions for our used vehicle inventories are dependent on a combination of factors, such as liquidity needs and pricing considerations, among others.
At June 30, 2015, the aggregate capacity under our used vehicle floorplan facilities was $335.0 million. As of that date, $232.7 million had been borrowed under those facilities, and the remaining borrowing capacity of $102.3 million was limited to $85.5 million based on the eligible used vehicle inventory that could have been pledged as collateral.
At December 31, 2014, the aggregate capacity under our used vehicle floorplan facilities was $315.0 million. As of that date, $236.0 million had been borrowed under those facilities, and the remaining borrowing capacity of $79.0 million was limited to $50.2 million based on the eligible used vehicle inventory that could have been pledged as collateral.
All the floorplan facilities utilize LIBOR-based interest rates. Floorplan facilities are due on demand, but in the case of new vehicle inventories, are generally paid within several business days after the related vehicles are sold. Our manufacturer agreements generally require that the manufacturer have the ability to draft against the new vehicle floorplan facilities so the lender directly funds the manufacturer for the purchase of new vehicle inventory. Floorplan facilities are primarily collateralized by vehicle inventories and related receivables.

Cash Flows

The following table summarizes the changes in our cash provided by (used in) operating, investing, and financing activities:

	Six Months Ended June 30,	
(In millions)	2015	2014
Net cash provided by operating activities	$242.3	$210.9
Net cash used in investing activities	$(190.0)	$(95.3)
Net cash used in financing activities	$(62.4)	$(116.3)

Cash Flows from Operating Activities

Our primary sources of operating cash flows are collections from contracts-in-transit and customers following the sale of vehicles, collections from customers for the sale of parts and services and finance and insurance products, and proceeds from vehicle floorplan payable-trade. Our primary uses of cash from operating activities are repayments of vehicle floorplan payable-trade, purchases of parts inventory, personnel related expenditures, and payments related to taxes and leased properties.
Net cash provided by operating activities increased during the six months ended June 30, 2015, as compared to the same period in 2014, primarily due to an increase in earnings and a decrease in working capital requirements.

Cash Flows from Investing Activities

Net cash flows from investing activities consist primarily of cash used in capital additions, activity from business acquisitions, business divestitures, property dispositions, and other transactions.

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Net cash used in investing activities increased during the six months ended June 30, 2015, as compared to the same period in 2014, primarily due to an increase in cash used in business acquisitions, net of cash acquired, and an increase in property and equipment purchases, partially offset by an increase in proceeds from the disposal of assets held for sale and an increase in cash received from business divestitures, net of cash relinquished.

We will make facility and infrastructure upgrades and improvements from time to time as we identify projects that are required to maintain our current business or that we expect to provide us with acceptable rates of return. Excluding land purchased for future sites and lease buy-outs, and net of related asset sales, we project that 2015 capital expenditures, including accrued construction in progress, will be approximately $235 million.

Cash Flows from Financing Activities

Net cash flows from financing activities primarily include repurchases of common stock, debt activity, changes in vehicle floorplan payable-non-trade, and stock option exercises.

During the six months ended June 30, 2015, we repurchased 0.9 million shares of common stock for an aggregate purchase price of $59.1 million (average purchase price per share of $62.41). In addition, during the six months ended June 30, 2015, 35,927 shares were surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock.

During the six months ended June 30, 2014, we repurchased 3.6 million shares of common stock for an aggregate purchase price of $179.8 million (average purchase price per share of $50.53). In addition, during the six months ended June 30, 2014, 44,477 shares were surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock.

During the six months ended June 30, 2015, we borrowed $1.1 billion and repaid $1.4 billion under our revolving credit facility, for net repayments of $310.0 million. On May 22, 2015, we established a commercial paper program pursuant to which we may issue short-term, unsecured commercial paper notes on a private placement basis up to a maximum aggregate amount outstanding at any time of $300.0 million. Cash flows from financing activities include changes in commercial paper notes outstanding totaling net proceeds of $298.5 million during the six months ended June 30, 2015.

During the six months ended June 30, 2014, we borrowed $610.0 million and repaid $545.0 million under our revolving credit facility, for net borrowings of $65.0 million.

We made payments of capital lease and other debt obligations of $5.1 million during the six months ended June 30, 2015, and $19.6 million during the six months ended June 30, 2014.

Recent Accounting Pronouncements

See Note 1 of the Notes to Unaudited Condensed Consolidated Financial Statements.

Forward-Looking Statements

Our business, financial condition, results of operations, cash flows, and prospects, and the prevailing market price and performance of our common stock may be adversely affected by a number of factors, including the matters discussed below. Certain statements and information set forth in this Quarterly Report on Form 10-Q, including without limitation statements regarding expected future investments in our business and our expectations for the future performance of our franchises and the automotive retail industry, as well as other written or oral statements made from time to time by us or by our authorized executive officers on our behalf, constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact, including statements that describe our objectives, plans or goals are, or may be deemed to be, forward-looking statements. Words such as “anticipate,” “expect,” “intend,” “goal,” “plan,” “believe,” “continue,” “may,” “will,” and variations of such words and similar expressions are intende identify such forward-looking statements. Our forward-looking statements reflect our current expectations concerning future results and events, and they involve known and unknown risks, uncertainties and other factors that are difficult to predict and may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by these statements. The risks, uncertainties, and other factors that our stockholders and prospective investors should consider include, but are not limited to, the following:

- The automotive retail industry is sensitive to changing economic conditions and various other factors. Our business and results of operations are substantially dependent on new vehicle sales levels in the United States and in our

particular geographic markets and the level of gross profit margins that we can achieve on our sales of new vehicles, all of which are very difficult to predict.

- If we are not able to maintain and enhance our retail brands and reputation or to attract consumers to our own digital channels, or if events occur that damage our retail brands, reputation, or sales channels, our business and financial results may be harmed.
- We are dependent upon the success and continued financial viability of the vehicle manufacturers and distributors with which we hold franchises.
- New laws, regulations, or governmental policies regarding fuel economy and greenhouse gas emission standards, or changes to existing standards, may affect vehicle manufacturers' ability to produce cost-effective vehicles or vehicles that consumers demand, which could adversely impact our business, results of operations, financial condition, cash flow, and prospects.
- Our new vehicle sales are impacted by the consumer incentive, marketing, and other programs of vehicle manufacturers.
- Natural disasters and adverse weather events can disrupt our business.
- We are subject to restrictions imposed by, and significant influence from, vehicle manufacturers that may adversely impact our business, financial condition, results of operations, cash flows, and prospects, including our ability to acquire additional stores.
- We are subject to numerous legal and administrative proceedings, which, if the outcomes are adverse to us, could materially adversely affect our business, results of operations, financial condition, cash flows, and prospects.
- Our operations are subject to extensive governmental laws and regulations. If we are found to be in purported violation of or subject to liabilities under any of these laws or regulations, or if new laws or regulations are enacted that adversely affect our operations, our business, operating results, and prospects could suffer.
- A failure of our information systems or any security breach or unauthorized disclosure of confidential information could have a material adverse effect on our business.
- Our debt agreements contain certain financial ratios and other restrictions on our ability to conduct our business, and our substantial indebtedness could adversely affect our financial condition and operations and prevent us from fulfilling our debt service obligations.
- We are subject to interest rate risk in connection with our vehicle floorplan payables, revolving credit facility, and term loan facility that could have a material adverse effect on our profitability.
- Our largest stockholders, as a result of their ownership stakes in us, may have the ability to exert substantial influence over actions to be taken or approved by our stockholders or Board of Directors. In addition, future share repurchases and fluctuations in the levels of ownership of our largest stockholders could impact the volume of trading, liquidity, and market price of our common stock.
- Goodwill and other intangible assets comprise a significant portion of our total assets. We must test our goodwill and other intangible assets for impairment at least annually, which could result in a material, non-cash write-down of goodwill or franchise rights and could have a material adverse impact on our results of operations and shareholders' equity.

Please refer to our most recent Annual Report on Form 10-K for additional discussion of the foregoing risks. These forward-looking statements speak only as of the date of this report, and we undertake no obligation to update any forward-looking statements to reflect subsequent events or circumstances.

Additional Information

Investors and others should note that we announce material financial information using our company website (www.autonation.com), our investor relations website (investors.autonation.com), SEC filings, press releases, public conference calls, and webcasts. Information about AutoNation, its business, and its results of operations may also be announced by posts on the following social media channels:

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- AutoNation’s Twitter feed (www.twitter.com/autonation)
- Mike Jackson’s Twitter feed (www.twitter.com/CEOMikeJackson)
- AutoNation’s Facebook page (www.facebook.com/autonation)
- Mike Jackson’s Facebook page (www.facebook.com/CEOMikeJackson)

The information that we post on these social media channels could be deemed to be material information. As a result, we encourage investors, the media, and others interested in AutoNation to review the information that we post on these social media channels. These channels may be updated from time to time on AutoNation’s investor relations website. The information on or accessible through our websites and social media channels is not incorporated by reference in this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our primary market risk exposure is changing LIBOR-based interest rates. Interest rate derivatives may be used to hedge a portion of our variable rate debt when appropriate based on market conditions.

We had $3.3 billion of variable rate vehicle floorplan payable at June 30, 2015, and $3.1 billion at December 31, 2014. Based on these amounts, a 100 basis point change in interest rates would result in an approximate change to our annual floorplan interest expense of $33.2 million at June 30, 2015, and $31.0 million at December 31, 2014. Our exposure to changes in interest rates with respect to total vehicle floorplan payable is partially mitigated by manufacturers’ floorplan assistance, which in some cases is based on variable interest rates.

We had $800.0 million of other variable rate debt outstanding at June 30, 2015 and $1.1 billion at December 31, 2014. Based on the amounts outstanding, a 100 basis point change in interest rates would result in an approximate change to annual interest expense of $8.0 million at June 30, 2015, and $11.1 million at December 31, 2014.

We had $298.5 million of commercial paper notes outstanding at June 30, 2015. Based on the amounts outstanding, a 100 basis point change in interest rates would result in an approximate change to annual interest expense of $3.0 million at June 30, 2015.

Our fixed rate long-term debt, primarily consisting of amounts outstanding under our senior unsecured notes and mortgages, totaled $1.0 billion and had a fair value of $1.1 billion as of June 30, 2015, and as of December 31, 2014.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 under the Exchange Act that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS
In addition to the information set forth in this Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A of our most recent Annual Report on Form 10-K, which could materially affect our business, financial condition, or future results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
The table below sets forth information with respect to shares of common stock repurchased by AutoNation, Inc. during the three months ended June 30, 2015.

Period	Total Number of Shares Purchased (1)	Avg. Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under The Programs (in millions)(1)
April 1, 2015 - April 30, 2015	—	$—	—	$ 271.6
May 1, 2015 - May 31, 2015	576,487	$62.55	575,000	$ 235.6
June 1, 2015 - June 30, 2015	246,899	$63.31	221,458	$ 221.6
Total	823,386		796,458	

(1) Our Board of Directors from time to time authorizes the repurchase of shares of our common stock up to a certain monetary limit. As of June 30, 2015, $221.6 million remained available under our stock repurchase authorization limit. The Board’s authorization has no expiration date. During the second quarter of 2015, all of the shares reflected in the table above were repurchased under our stock repurchase program, except for 26,928 shares surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock.

ITEM 5. OTHER INFORMATION
On July 20, 2015, Alan J. McLaren provided notice of his resignation from his position as Senior Vice President, Customer Care of the Company effective July 31, 2015. From August 1, 2015 through September 30, 2015, Mr. McLaren will continue to serve as an employee of the Company in an advisory capacity on transition matters, with compensation consistent with his current compensation.
On July 21, 2015, the Company entered into a Transition and Separation Agreement (the “Agreement”) with Mr. McLaren in connection with his resignation. Pursuant to the terms of the Agreement, in consideration for, among other things, his compliance with confidentiality and cooperation obligations, as well as his compliance with all other agreements between him and the Company, including non-competition agreements, Mr. McLaren will receive severance compensation up to $532,208, less applicable taxes and withholdings, payable in semi-monthly installments over a maximum of eight months. Mr. McLaren’s restricted stock and stock options will be governed by the terms of his award agreements and the AutoNation, Inc. 2008 Employee Equity and Incentive Plan.
The foregoing summary of the Agreement is qualified in its entirety by reference to such Agreement. The Agreement is filed as Exhibit 10.1 to this report and is incorporated herein by reference.

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ITEM 6. EXHIBITS

Exhibit No.	Description
10.1	Transition and Separation Agreement, dated July 21, 2015, by and between AutoNation, Inc. and Alan J. McLaren.
10.2	Form of Commercial Paper Dealer Agreement between AutoNation, Inc., as Issuer, and the Dealer party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 22, 2015).
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Exchange Act.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Exchange Act.
32.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AUTONATION, INC.

Date: July 22, 2015

By: /s/ Christopher Cade
Christopher Cade
Vice President and Chief Accounting Officer

(Duly Authorized Officer and Principal Accounting Officer)