

ZIONS BANCORPORATION /UT/  
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Free Writing Prospectus  
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**Zions Bancorporation**  
**Free Writing Prospectus Dated May 4, 2007**

*The information in this free writing prospectus supplements the information contained in, and should be read together with, the preliminary prospectus supplement of Zions Bancorporation ("Zions") filed with the Securities Exchange Commission (the "SEC") on April 24, 2007 (including the base prospectus filed with the SEC on March 31, 2006, as well as the documents incorporated by reference therein).*

*This free writing prospectus corrects and supplements an earlier free writing prospectus (film no. 07818475) filed on May 4, 2007.*

*On May 3, 2007, The San Jose Mercury News published three articles regarding Zions, the full text of each of which is reproduced below. The information set forth in the article was not prepared by Zions and, with the exception of the statements and acknowledgements attributed directly to Mr. Evan Hill in the 6<sup>th</sup> and 19<sup>th</sup> paragraphs of the first article, constitutes the author's opinion, which is not necessarily endorsed or adopted by Zions.*

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**Bank's auction plan could cut companies' charges for options  
SILICON VALLEY AND BEYOND WATCHING CLOSELY**

By Mark Schwanhausser

Mercury News

San Jose Mercury News

Article Launched: 05/03/2007 05:59:45 PM PDT

An innovative auction by a Utah-based bank could spark a revolution in the way tech companies handle the accounting hit from stock options, the subject of perhaps the most bitter and passionately fought political debate in Silicon Valley's history.

Starting today through Monday, Zions Bancorp will let investors bid on an investment that will give them a chance to profit when workers cash in their stock options.

Silicon Valley companies are watching the auction closely because it could help them whittle down the accounting charge for their own options, and thus increase their profits.

If the controversial experiment works - and regulators support it - it could also encourage companies to loosen the spigot on options for rank-and-file workers.

All this hinges on the expectation that bidders will pay significantly less for this novel investment than the theoretical price tag for options derived from the Nobel Prize-winning Black-Scholes formula, the most widely used measure now. Critics say Black-Scholes significantly inflates the cost of options.

If the auction trims the accounting charge, Zions Bank Vice President Evan Hill hopes others will sign up for its program. About 50 large companies from the valley and across the country have requested access so they can monitor the auction.

"We have a lot of interest that is contingent on our successfully being the guinea pig," Hill said. The companies are saying, "Show us the number" that can be used for accounting purposes "and we will follow your approach."

The auction also will be studied by investors who lobbied for more than a decade to force companies to expense stock options.

"The open question is whether this auction process results in a real fair value," said Jeff Mahoney, general counsel for the Council of Institutional Investors, which represents 140 public, private and corporate pension funds that invest more than \$3 trillion. Mahoney is scheduled to meet with Securities and Exchange Commission officials to discuss whether Zions' auction was constructed and marketed adequately to produce a reliable number for accounting purposes.

To appreciate why so many eyes in Silicon Valley are on Zions' experiment, it helps to recall the decade-long war that tech companies fought over the accounting rules for stock options.

One symbolic highlight was the 1994 "Rally in the Valley," when about 3,000 workers and a 55-piece marching band crammed into the San Jose Convention Center. One of the lustiest cheers came when Cypress Semiconductor boss T.J. Rodgers roared that the rule-making "commissars" were "suffering from rectal-cranial insertion."

Silicon Valley ultimately lost the war. Starting in their 2006 fiscal year, companies were required to subtract the cost of stock options from profits - erasing billions from their bottom lines.

Companies have tried a number of controversial tactics to trim that cost. Most have slowed the flow of options to workers. And many companies raised eyebrows by tinkering with the numbers they plug into the Black-Scholes formula so that a lower total will spit out.

"If someone were to ask me what the next big scandal for stock options after we get past backdating, I would say the subjective valuing of options is ripe," said Barbara Baksa, executive director of the National Association of Stock Plan Professionals. "There's a lot of subjectivity, a lot of manipulation and a lot of motivation for companies to manipulate these numbers."

Regulators, accounting rule-makers and institutional investors generally support the idea of letting actual investors put a price on stock options. The daunting task is how to do that in a way that results in a reliable number for accounting purposes.

That's not stopping people from trying, though.

In 2005, the Securities and Exchange Commission deflected Cisco Systems' idea to create a "derivative" investment designed to mimic its employee stock options. Bear Stearns and Citigroup developed blueprints for other methods.

"I'll wager we'll see a lot more things of this level of creativity over the next year or so," said Ted Buyniski, a compensation consultant with Radford Surveys & Consulting.

Zions' proposal is the first to get this far. Last year, Zions tested its idea with a similar auction of "Employee Stock Option Appreciation Rights Securities," or ESOARS, but the SEC wouldn't allow the bids to be used for accounting purposes because of technical problems. The agency also warned that Zions could run into resistance if its accounting number substantially undercut the Black-Scholes valuation.

Hill is confident that Zions has worked out the technical bugs. If Zions' is right, it hopes to conduct similar auctions through its brokerage arm for other companies and become the "EBay of ESOARS," as Hill puts it.

Experts predict Zions' experiment could open the door for others to roll out competing methods.

"Ultimately, this could change how we value employee stock options," said Baksa of the NASPP. "We're clearly a long way from that, but it could be a landmark development."

### **How the new stock option system works**

Mercury News

San Jose Mercury News

Article Launched:05/04/2007 06:34:37 AM PDT

Today through Monday, investor can bid on an investment that will let them profit when Zions Bancorp employees cash in their stock options. And if regulators approve, the price investors pay in the auction could determine the amount that Zions must subtract from corporate profits when accounting for the stock options.

1. Bank offers options: Zions grants nearly 1 million stock options to its workers today.
  2. Investors bid on options gains: Investors bid in a Dutch auction on a new investment known as Employee Stock Option Appreciation Rights. Winning bidders buy the right to receive 10 percent of the gains that Zions' workers pocket from their options.
  3. Workers cash in options: Workers cash in their options over the next 10 years.
  4. Bank pays investors: Each quarter, Zions pays ESOAR investors their cut of workers' gains. Investors win if they accurately predict how much workers will cash in but pay less than 10 percent of that. Zions wins if the auction sufficiently lowers its accounting charge for stock options to make up for the money it's paying out - and if other companies pay it to conduct similar auctions.
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**Google options program will raise options charges, not cut them**

Mark Schwanhausser

Mercury News

San Jose Mercury News

Article Launched:05/04/2007 01:44:17 AM PDT

Zions Bancorp isn't alone in giving investors a chance to buy employee stock options. Google rolled out a program in April - but the Mountain View company's motive is to make its options more attractive to workers, not to shave the accounting charge.

Indeed, Google's program will boost that charge, experts say.

Under the program, Googlers can let certain financial institutions bid on their "Transferable Stock Options." The idea is that bidders will pay a premium because they'll have up to two years to cash them in and pocket any appreciation. For example, this could enable Googlers to profit even if their options are "underwater," meaning that they'd have to pay more than the stock is worth at the time.

What Zions and Google have in common is that both are experimenting with innovations that could ease the stock option drought since the accounting rules slowed the flow of options to rank-and-file workers, said Ted Buyniski, a compensation consultant with Radford Surveys \+ Consulting.

"What they're both trying to do from different directions is to reverse that and basically open the spigot back up," Buyniski said. "The Google approach, in essence, is saying, 'We can't give you more water, but we're going to give you better water.' The Zions Bank approach is, 'We're going to make it cheaper to give you water so that you can get more of it.'"

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### **Forward-Looking Statements**

In addition to historical information, this free writing prospectus contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements regarding the timing and benefits of the proposed auction. Such statements encompass Zions' beliefs, expectations, hopes or intentions regarding future events. Words such as "expects," "intends," "believes," "anticipates," "should," "likely" and similar expressions identify forward-looking statements. All forward-looking statements included in this communication are made as of the date hereof and are based on information available to Zions as of such date. Zions assumes no obligation to update any forward-looking statement. Risk factors, cautionary statements and other conditions which could cause actual results to differ from management's current expectations are contained in Zions' filings with the SEC, including the section of Zions' preliminary prospectus supplement dated April 24, 2007, entitled "Risk Factors."

The issuer has filed a registration statement (including a prospectus) with the SEC (File no. 333-132868) for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents the issuer has filed with the SEC for more complete information about the issuer and this offering. You may get these documents for free by visiting EDGAR on the SEC Web site at [www.sec.gov](http://www.sec.gov). Alternatively, the issuer, any underwriter or any dealer participating in the offering will arrange to send you the prospectus if you request it by calling toll-free 1 (800) 524-8875.